



**Auditor of State  
Betty Montgomery**



**CITY OF MARION  
MARION COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

City of Marion  
Marion County  
233 West Center Street  
Marion, Ohio 43301

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marion, Marion County, Ohio, (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marion, Marion County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparisons for the General and Street funds, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The City did not present Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Federal Awards Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

October 25, 2004

City of Marion  
Statement of Net Assets  
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$5,840,505	\$5,694,042	\$11,534,547
Petty Cash	1,220	780	2,000
Cash and Cash Equivalents with Fiscal Agent	287	0	287
Accounts Receivable	111,963	2,355,603	2,467,566
Due from Other Governments	2,680,324	38,980	2,719,304
Accrued Interest Receivable	2,883	0	2,883
Municipal Income Taxes Receivable	2,241,808	0	2,241,808
Internal Balances	37,732	(37,732)	0
Prepaid Items	212,393	112,315	324,708
Materials and Supplies Inventory	171,704	45,679	217,383
Payment in Lieu of Taxes Receivable	297,931	0	297,931
Property Taxes Receivable	1,533,003	0	1,533,003
Notes Receivable	1,253,541	0	1,253,541
Special Assessments Receivable	93,057	0	93,057
Nondepreciable Capital Assets	8,443,407	23,547,616	31,991,023
Depreciable Capital Assets, Net	29,430,370	21,985,161	51,415,531
<b>Total Assets</b>	<b>52,352,128</b>	<b>53,742,444</b>	<b>106,094,572</b>
<u>Liabilities</u>			
Accrued Wages Payable	427,235	90,092	517,327
Accounts Payable	547,979	625,277	1,173,256
Contracts Payable	351,766	0	351,766
Due to Other Governments	879,569	127,407	1,006,976
Matured Interest Payable	287	0	287
Accrued Interest Payable	39,620	0	39,620
Notes Payable	1,780,000	0	1,780,000
Deferred Revenue	1,575,666	14,601	1,590,267
Long-Term Liabilities			
Due Within One Year	216,884	1,715,974	1,932,858
Due in More Than One Year	6,556,733	38,607,856	45,164,589
<b>Total Liabilities</b>	<b>12,375,739</b>	<b>41,181,207</b>	<b>53,556,946</b>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	34,258,515	8,392,627	42,651,142
Restricted for			
Debt Service	464,313	0	464,313
Capital Projects	447,916	0	447,916
Other Purposes	2,896,136	0	2,896,136
Unrestricted	1,909,509	4,168,610	6,078,119
<b>Total Net Assets</b>	<b>\$39,976,389</b>	<b>\$12,561,237</b>	<b>\$52,537,626</b>

See Accompanying Notes to the Basic Financial Statements

City of Marion  
Statement of Activities  
For the Year Ended December 31, 2003

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities</u>				
Security of Persons and Property	\$11,707,849	\$6,559	\$208,130	\$0
Public Health	1,190,979	186,399	462,142	0
Leisure Time Activities	1,135,391	87,443	108,557	0
Community Environment	1,205,632	3,106	561,367	250,000
Basic Utility Services	16,260	0	0	0
Transportation	5,115,682	110,009	1,218,762	699,326
General Government	3,568,046	1,068,661	138,145	0
Interest and Fiscal Charges	157,453	0	0	0
<b>Total Governmental Activities</b>	<b>24,097,292</b>	<b>1,462,177</b>	<b>2,697,103</b>	<b>949,326</b>
<u>Business-Type Activities</u>				
Sewer	4,296,339	4,569,868	0	58,133
Storm Sewer	1,007,834	1,207,760	0	97,595
Sanitation	1,964,058	2,059,030	0	0
Other Enterprise	1,343,207	346,072	498,934	0
<b>Total Business-Type Activities</b>	<b>8,611,438</b>	<b>8,182,730</b>	<b>498,934</b>	<b>155,728</b>
<b>Total</b>	<b>\$32,708,730</b>	<b>\$9,644,907</b>	<b>\$3,196,037</b>	<b>\$1,105,054</b>

General Revenues

Local Taxes Levied for General Purposes  
Local Taxes Levied for Special Revenue  
Local Taxes Levied for Debt  
Local Taxes Levied for Capital Projects  
Payment in Lieu of Taxes  
Franchise Fees  
Grants and Entitlements not Restricted to Specific Programs  
Interest  
Insurance Claim  
Other

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year - Restated (See Note 3)

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements



Net (Expense) Revenue  
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$11,493,160)	\$0	(\$11,493,160)
(542,438)	0	(542,438)
(939,391)	0	(939,391)
(391,159)	0	(391,159)
(16,260)	0	(16,260)
(3,087,585)	0	(3,087,585)
(2,361,240)	0	(2,361,240)
(157,453)	0	(157,453)
<u>(18,988,686)</u>	<u>0</u>	<u>(18,988,686)</u>
0	331,662	331,662
0	297,521	297,521
0	94,972	94,972
<u>0</u>	<u>(498,201)</u>	<u>(498,201)</u>
<u>0</u>	<u>225,954</u>	<u>225,954</u>
<u>(18,988,686)</u>	<u>225,954</u>	<u>(18,762,732)</u>
11,574,833	0	11,574,833
1,841,263	0	1,841,263
111,587	0	111,587
354,515	0	354,515
508,703	0	508,703
163,090	0	163,090
1,882,797	0	1,882,797
267,022	0	267,022
894,421	0	894,421
224,142	226,410	450,552
<u>17,822,373</u>	<u>226,410</u>	<u>18,048,783</u>
<u>(76,425)</u>	<u>76,425</u>	<u>0</u>
(1,242,738)	528,789	(713,949)
<u>41,219,127</u>	<u>12,032,448</u>	<u>53,251,575</u>
<u>\$39,976,389</u>	<u>\$12,561,237</u>	<u>\$52,537,626</u>

City of Marion  
Balance Sheet  
Governmental Funds  
December 31, 2003

	General	Street	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$3,524,341	\$173,014	\$1,630,417	\$5,327,772
Petty Cash	1,030	25	165	1,220
Cash and Cash Equivalents in Fiscal Agent	0	0	287	287
Accounts Receivable	104,943	240	6,591	111,774
Due from Other Governments	917,815	539,397	1,223,112	2,680,324
Accrued Interest Receivable	2,883	0	0	2,883
Municipal Income Taxes Receivable	1,963,200	191,678	86,930	2,241,808
Interfund Receivable	141,362	0	20,000	161,362
Prepaid Items	165,259	20,546	21,814	207,619
Materials and Supplies Inventory	41,460	0	2,489	43,949
Payment in Lieu of Taxes	0	0	297,931	297,931
Property Taxes Receivable	1,301,130	0	231,873	1,533,003
Notes Receivable	0	0	1,253,541	1,253,541
Special Assessments Receivable	39,333	0	53,724	93,057
<b>Total Assets</b>	<b>\$8,202,756</b>	<b>\$924,900</b>	<b>\$4,828,874</b>	<b>\$13,956,530</b>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$344,367	\$32,333	\$43,491	\$420,191
Accounts Payable	304,363	75,523	58,185	438,071
Contracts Payable	0	0	351,766	351,766
Due to Other Governments	637,882	47,619	185,354	870,855
Matured Interest Payable	0	0	287	287
Interfund Payable	14,652	19,139	163,307	197,098
Deferred Revenue	2,856,812	441,114	1,042,755	4,340,681
<b>Total Liabilities</b>	<b>4,158,076</b>	<b>615,728</b>	<b>1,845,145</b>	<b>6,618,949</b>
<u>Fund Balance</u>				
Reserved for Encumbrances	569,104	0	538,406	1,107,510
Reserved for Notes Receivable	0	0	1,231,588	1,231,588
Unreserved, Reported in				
General Fund	3,475,576	0	0	3,475,576
Special Revenue Funds	0	309,172	693,168	1,002,340
Debt Service Fund	0	0	522,900	522,900
Capital Projects Funds (Deficit)	0	0	(2,333)	(2,333)
<b>Total Fund Balance</b>	<b>4,044,680</b>	<b>309,172</b>	<b>2,983,729</b>	<b>7,337,581</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$8,202,756</b>	<b>\$924,900</b>	<b>\$4,828,874</b>	<b>\$13,956,530</b>

See Accompanying Notes to the Basic Financial Statements

City of Marion  
 Reconciliation of Total Governmental Fund Balance  
 to Net Assets of Governmental Activities  
 December 31, 2003

Total Governmental Fund Balance \$7,337,581

Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 35,658,660

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Due from Other Governments	1,615,012	
Municipal Income Taxes Receivable	903,161	
Property Taxes Receivable	153,911	
Special Assessments Receivable	92,931	
		2,765,015

An interfund receivable is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities. 16,586

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(39,620)	
TIF Loans Payable	(1,716,675)	
OPWC Loans Payable	(118,587)	
General Obligation Bonds Payable	(1,563,000)	
Compensated Absences Payable	(3,334,692)	
		(6,772,574)

An internal service fund is used by management to charge the cost of vehicle maintenance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. 971,121

Net Assets of Governmental Activities \$39,976,389

See Accompanying Notes to the Basic Financial Statements

City of Marion  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Governmental Funds  
For the Year Ended December 31, 2003

	General	Street	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Local Taxes	\$11,253,719	\$1,461,995	\$722,453	\$13,438,167
Payment in Lieu of Taxes	0	0	508,703	508,703
Special Assessments	5,430	0	25,317	30,747
Charges for Services	195,889	2,472	118,451	316,812
Fines, Licenses, and Permits	1,122,959	16,400	158,873	1,298,232
Intergovernmental	1,688,984	1,090,721	2,727,547	5,507,252
Interest	232,436	3,234	37,364	273,034
Other	67,094	1,961	169,151	238,206
<b>Total Revenues</b>	<b>14,566,511</b>	<b>2,576,783</b>	<b>4,467,859</b>	<b>21,611,153</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property	10,739,616	0	855,348	11,594,964
Public Health	0	0	1,169,191	1,169,191
Leisure Time Activities	535,958	0	567,758	1,103,716
Community Environment	355,187	0	841,675	1,196,862
Basic Utility Services	0	0	16,260	16,260
Transportation	326,918	2,664,210	612,314	3,603,442
General Government	3,222,790	0	175,077	3,397,867
Capital Outlay	129,241	108,498	261,529	499,268
Debt Service	0	0	361,671	361,671
<b>Total Expenditures</b>	<b>15,309,710</b>	<b>2,772,708</b>	<b>4,860,823</b>	<b>22,943,241</b>
Excess of Revenues Under Expenditures	(743,199)	(195,925)	(392,964)	(1,332,088)
<u>Other Financing Sources (Uses)</u>				
Transfers In	0	0	993,333	993,333
Transfers Out	(1,140,333)	0	(50,271)	(1,190,604)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,140,333)</b>	<b>0</b>	<b>943,062</b>	<b>(197,271)</b>
<b>Change in Fund Balance</b>	<b>(1,883,532)</b>	<b>(195,925)</b>	<b>550,098</b>	<b>(1,529,359)</b>
Fund Balance Beginning of Year (Restated See Note 3)	5,928,212	505,097	2,433,631	8,866,940
<b>Fund Balance End of Year</b>	<b>\$4,044,680</b>	<b>\$309,172</b>	<b>\$2,983,729</b>	<b>\$7,337,581</b>

See Accompanying Notes to the Basic Financial Statements

City of Marion  
 Reconciliation of Statement of Revenues, Expenditures,  
 and Changes in Fund Balance  
 of Governmental Funds to Statement of Activities  
 For the Year Ended December 31, 2003

Change in Fund Balance - Total Governmental Funds (\$1,529,359)

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

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year.

Capital Outlay - Nondepreciable Capital Assets	802,181	
Capital Outlay - Depreciable Capital Assets	677,374	
Depreciation	<u>(2,472,036)</u>	(992,481)

The cost of the capital assets is removed from the capital asset account on the statement of net assets resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(71,366)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.

Local Taxes	444,028	
Special Assessments	(3,811)	
Intergovernmental	(19,714)	
Other	<u>4,900</u>	425,403

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

TIF Loans	135,229	
OPWC Loans	6,410	
General Obligation Bonds	<u>60,000</u>	201,639

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.

2,578

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

Compensated Absences Payable	<u>(266,384)</u>	(266,384)
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The internal service fund used by management to charge the cost of vehicle maintenance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year.

Insurance Claim	894,421	
Transfer In	120,846	
Allocated to Activities	<u>(28,035)</u>	<u>987,232</u>

Change in Net Assets of Governmental Activities	<u><u>(\$1,242,738)</u></u>
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See Accompanying Notes to the Basic Financial Statements

City of Marion  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
General Fund  
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Property Taxes	\$ 1,147,475	\$ 1,205,709	\$ 1,187,178	\$ (18,531)
Income Taxes	10,639,711	10,639,711	10,371,289	(268,422)
Other Local Taxes	2,180	2,180	1,776	(404)
Intergovernmental	2,268,469	2,168,469	1,866,098	(302,371)
Charges for Services	281,365	281,365	207,119	(74,246)
Fines and Forfeitures	1,195,200	1,195,200	1,133,451	(61,749)
Special Assessments	5,000	5,000	5,429	429
Interest	350,000	300,000	229,553	(70,447)
Miscellaneous	6,500	14,000	17,046	3,046
Total Revenues	15,895,900	15,811,634	15,018,939	(792,695)
Expenditures:				
Current:				
General Government	3,016,178	3,147,235	3,018,530	128,705
Security of Persons and Property	10,890,644	11,813,780	11,537,034	276,746
Leisure Time Activities	583,391	592,838	546,067	46,771
Community Environment	341,000	355,187	355,187	0
Transportation	349,620	367,099	350,200	16,899
Other	287,000	305,500	293,784	11,716
Total Expenditures	15,467,833	16,581,639	16,100,802	480,837
Excess of Revenues Over (Under) Expenditures	428,067	(770,005)	(1,081,863)	(311,858)
Other Financing Sources (Uses):				
Other Financing Sources	10,000	0	42,686	42,686
Sale of Fixed Assets	7,500	7,500	11,492	3,992
Advances-In	0	0	643,720	643,720
Advances-Out	0	0	(375,124)	(375,124)
Operating Transfers-Out	(1,181,080)	(1,386,745)	(1,140,333)	246,412
Total Other Financing Sources (Uses)	(1,163,580)	(1,379,245)	(817,559)	561,686
Net Change in Fund Balance	(735,513)	(2,149,250)	(1,899,422)	249,828
Fund Balances (Deficit) at Beginning of Year	4,318,255	4,318,255	4,318,255	0
Prior Year Encumbrances Appropriated	237,931	237,931	237,931	0
Fund Balances (Deficit) at End of Year	\$3,820,673	\$2,406,936	\$2,656,764	\$249,828

See Accompanying Notes to the Basic Financial Statements

City of Marion  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
Street Fund  
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b><u>Revenues:</u></b>				
Income Taxes	\$1,008,354	\$1,317,250	\$1,320,854	\$3,604
Permissive MVL	182,000	183,063	183,063	0
Intergovernmental	995,000	1,064,500	1,063,848	(652)
Charges for Services	4,000	4,000	2,472	(1,528)
Fees, Licenses, and Permits	17,000	21,000	16,400	(4,600)
Interest	6,000	3,000	3,234	234
Miscellaneous	1,000	1,000	543	(457)
Total Revenues	<u>2,213,354</u>	<u>2,593,813</u>	<u>2,590,414</u>	<u>(3,399)</u>
<b><u>Expenditures:</u></b>				
Current:				
Transportation	2,176,947	2,911,992	2,796,321	115,671
Total Expenditures	<u>2,176,947</u>	<u>2,911,992</u>	<u>2,796,321</u>	<u>115,671</u>
Excess of Revenues Over (Under) Expenditures	<u>36,407</u>	<u>(318,179)</u>	<u>(205,907)</u>	<u>112,272</u>
<b><u>Other Financing Sources (Uses):</u></b>				
Other Financing Sources	2,500	2,500	207	(2,293)
Other Financing Uses	(18,400)	(23,400)	(17,400)	6,000
Sale of Fixed Assets	1,000	1,000	1,016	16
Total Other Financing Sources (Uses)	<u>(14,900)</u>	<u>(19,900)</u>	<u>(16,177)</u>	<u>3,723</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	21,507	(338,079)	(222,084)	115,995
Fund Balances (Deficit) at Beginning of Year	286,499	286,499	286,499	0
Prior Year Encumbrances Appropriated	35,716	35,716	35,716	0
Fund Balances (Deficit) at End of Year	<u>\$343,722</u>	<u>(\$15,864)</u>	<u>\$100,131</u>	<u>\$115,995</u>

See Accompanying Notes to the Basic Financial Statements

City of Marion  
Statement of Fund Net Assets  
Proprietary Funds  
December 31, 2003

	Enterprise Funds				Total Enterprise Funds	Internal Service Funds
	Sewer	Storm Sewer	Sanitation	Other Enterprise		
<u>Assets</u>						
<u>Current Assets</u>						
Equity in Pooled Cash and Cash Equivalents	\$2,503,347	\$2,789,946	\$288,032	\$97,142	\$5,678,467	\$528,308
Petty Cash	50	0	25	305	380	400
Accounts Receivable	1,294,877	363,780	644,151	52,766	2,355,574	218
Interfund Receivable	1,624	0	0	0	1,624	70,197
Due from Other Governments	1,935	0	0	37,045	38,980	0
Prepaid Items	78,182	2,714	14,906	15,487	111,289	5,800
Materials and Supplies Inventory	44,932	0	0	0	44,932	128,501
<b>Total Current Assets</b>	<b>3,924,947</b>	<b>3,156,440</b>	<b>947,114</b>	<b>202,745</b>	<b>8,231,246</b>	<b>733,424</b>
<u>Non-Current Assets</u>						
Nondepreciable Capital Assets	23,470,730	0	40,886	36,000	23,547,616	454,468
Depreciable Capital Assets, Net	13,964,094	7,069,804	488,110	448,569	21,970,577	1,775,234
<b>Total Non-Current Assets</b>	<b>37,434,824</b>	<b>7,069,804</b>	<b>528,996</b>	<b>484,569</b>	<b>45,518,193</b>	<b>2,229,702</b>
<b>Total Assets</b>	<b>41,359,771</b>	<b>10,226,244</b>	<b>1,476,110</b>	<b>687,314</b>	<b>53,749,439</b>	<b>2,963,126</b>
<u>Liabilities</u>						
<u>Current Liabilities</u>						
Accrued Wages Payable	48,428	0	23,131	14,514	86,073	11,064
Accounts Payable	545,848	12,700	58,759	3,795	621,102	114,082
Deferred Revenue	0	0	12,912	1,689	14,601	0
Due to Other Governments	73,629	0	27,080	21,242	121,951	14,172
Interfund Payable	5,656	2,548	18,874	9,007	36,085	0
Notes Payable	0	0	0	0	0	1,780,000
Loans Payable	1,309,976	12,307	123,691	0	1,445,974	0
Bonds Payable	95,000	175,000	0	0	270,000	0
<b>Total Current Liabilities</b>	<b>2,078,537</b>	<b>202,555</b>	<b>264,447</b>	<b>50,247</b>	<b>2,595,786</b>	<b>1,919,318</b>
<u>Non-Current Liabilities</u>						
Compensated Absences Payable	283,752	0	126,826	80,610	491,188	60,598
Closure/Postclosure Payable	0	0	2,672,558	0	2,672,558	0
Loans Payables	26,822,649	218,749	1,777,778	0	28,819,176	0
Bonds Payable	2,335,000	4,270,000	0	0	6,605,000	0
<b>Total Non-Current Liabilities</b>	<b>29,441,401</b>	<b>4,488,749</b>	<b>4,577,162</b>	<b>80,610</b>	<b>38,587,922</b>	<b>60,598</b>
<b>Total Liabilities</b>	<b>31,519,938</b>	<b>4,691,304</b>	<b>4,841,609</b>	<b>130,857</b>	<b>41,183,708</b>	<b>1,979,916</b>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	\$6,872,199	\$2,393,748	(\$1,372,473)	\$484,569	\$8,378,043	\$449,702
Unrestricted (Deficit)	2,967,634	3,141,192	(1,993,026)	71,888	4,187,688	533,508
<b>Total Net Assets</b>	<b>\$9,839,833</b>	<b>\$5,534,940</b>	<b>(\$3,365,499)</b>	<b>\$556,457</b>	<b>12,565,731</b>	<b>\$983,210</b>
Net assets reported for business-type activities on the statement of net assets is different because it includes a proportionate share of the balance of the internal service fund					(4,494)	
Net assets of business-type activities					<u>\$12,561,237</u>	

See Accompanying Notes to the Basic Financial Statements



City of Marion  
Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2003

	Sewer	Storm Sewer	Sanitation	Other Enterprise	Total Enterprise Funds	Internal Service Funds
<u>Operating Revenues</u>						
Charges for Services	\$4,569,868	\$1,207,760	\$2,059,030	\$346,072	\$8,182,730	\$672,744
Other	22,363	19,482	3,349	181,216	226,410	188,342
<b>Total Operating Revenues</b>	<b>4,592,231</b>	<b>1,227,242</b>	<b>2,062,379</b>	<b>527,288</b>	<b>8,409,140</b>	<b>861,086</b>
<u>Operating Expenses</u>						
Personal Services	1,610,389	225,345	736,900	755,628	3,328,262	431,015
Travel Transportation	122	0	0	897	1,019	127
Contractual Services	403,525	69,619	859,979	143,840	1,476,963	64,578
Materials and Supplies	314,267	50,167	41,158	69,350	474,942	308,944
Depreciation	812,388	157,201	75,539	114,643	1,159,771	34,269
Closure/Postclosure Expense	0	0	121,058	0	121,058	0
Other	529,481	267,398	11,219	16,103	824,201	44,510
<b>Total Operating Expenses</b>	<b>3,670,172</b>	<b>769,730</b>	<b>1,845,853</b>	<b>1,100,461</b>	<b>7,386,216</b>	<b>883,443</b>
<b>Operating Income (Loss)</b>	<b>922,059</b>	<b>457,512</b>	<b>216,526</b>	<b>(573,173)</b>	<b>1,022,924</b>	<b>(22,357)</b>
<u>Non-Operating Revenues (Expenses)</u>						
Insurance Claim	0	0	0	0	0	894,421
Gain (Loss) on Disposal of Capital Assets	0	0	(13,482)	(236,612)	(250,094)	40
Intergovernmental Revenues	0	0	0	498,934	498,934	0
Interest Revenue	0	0	0	0	0	0
Interest Expense	(614,574)	(233,833)	(86,593)	0	(935,000)	(45,846)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(614,574)</b>	<b>(233,833)</b>	<b>(100,075)</b>	<b>262,322</b>	<b>(686,160)</b>	<b>848,615</b>
<b>Income (Loss) before Contributions and Transfers</b>	<b>307,485</b>	<b>223,679</b>	<b>116,451</b>	<b>(310,851)</b>	<b>336,764</b>	<b>826,258</b>
Capital Contributions	58,133	97,595	0	0	155,728	0
Transfers In (Out)	0	0	0	76,425	76,425	120,846
<b>Change in Net Assets</b>	<b>365,618</b>	<b>321,274</b>	<b>116,451</b>	<b>(234,426)</b>	<b>568,917</b>	<b>947,104</b>
<b>Net Assets (Deficit) Beginning of Year</b>	<b>9,474,215</b>	<b>5,213,666</b>	<b>(3,481,950)</b>	<b>790,883</b>		<b>36,106</b>
<b>Net Assets (Deficit) End of Year</b>	<b>\$9,839,833</b>	<b>\$5,534,940</b>	<b>(\$3,365,499)</b>	<b>\$556,457</b>		<b>\$983,210</b>
The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund.					(40,128)	
<b>Change in net assets of business-type activities</b>					<b>\$528,789</b>	

See Accompanying Notes to the Basic Financial Statements

City of Marion  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2003

	Sewer	Storm Sewer	Sanitation	Other Enterprise	Total Enterprise Funds	Internal Service Funds
Increases (Decreases) in Cash and Cash Equivalents						
<u>Cash Flows from Operating Activities</u>						
Cash Received from Customers	\$4,356,939	\$1,201,030	\$1,920,347	\$341,643	\$7,819,959	\$630,376
Cash Payments for Personal Services	(1,578,123)	(225,416)	(726,026)	(798,790)	(3,328,355)	(429,223)
Cash Payments for Contractual Services	(852,076)	(66,555)	(845,839)	(145,753)	(1,910,223)	(65,493)
Cash Payments to Vendors	(325,749)	(49,060)	(39,000)	(68,766)	(482,575)	(367,086)
Cash Payments for Travel Transportation	(148)	0	0	(890)	(1,038)	(103)
Cash Received from Other Revenues	22,172	19,482	0	149,169	190,823	186,120
Cash Payments for Other Expenses	0	(307,458)	(220)	(17,102)	(324,780)	(69,130)
Net Cash Provided by (Used for) Operating Activities	<u>1,623,015</u>	<u>572,023</u>	<u>309,262</u>	<u>(540,489)</u>	<u>1,963,811</u>	<u>(114,539)</u>
<u>Cash Flows from Noncapital Financing Activities</u>						
Cash Received from Operating Grants	0	0	0	546,157	546,157	0
Cash Received from Transfers	0	0	0	76,425	76,425	75,000
Cash Payments for Advances from Other Funds	0	0	(81,000)	0	(81,000)	0
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>0</u>	<u>0</u>	<u>(81,000)</u>	<u>622,582</u>	<u>541,582</u>	<u>75,000</u>
<u>Cash Flows from Capital and Related Financing Activities</u>						
Principal Paid on Loans	(1,331,068)	(9,133)	(118,481)	0	(1,458,682)	0
Principal Paid on Bonds	(90,000)	(165,000)	0	0	(255,000)	0
Interest Paid on Debt	(614,574)	(233,833)	(86,593)	0	(935,000)	0
Proceeds of Loans	3,020,793	126,963	0	0	3,147,756	0
Sale of Capital Assets	0	0	1,400	87	1,487	0
Insurance Claim	0	0	0	0	0	894,461
Cash Received from Capital Grants	113,263	101,250	0	0	214,513	0
Acquisition of Capital Assets	(4,548,043)	(951,658)	0	(115,869)	(5,615,570)	(472,082)
Net Cash Used for Capital and Related Financing Activities	<u>(3,449,629)</u>	<u>(1,131,411)</u>	<u>(203,674)</u>	<u>(115,782)</u>	<u>(4,900,496)</u>	<u>422,379</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,826,614)	(559,388)	24,588	(33,689)	(2,395,103)	382,840
Cash and Cash Equivalents Beginning of Year	<u>4,330,011</u>	<u>3,349,334</u>	<u>263,469</u>	<u>131,136</u>	<u>8,073,950</u>	<u>145,868</u>
Cash and Cash Equivalents End of Year	<u>\$2,503,397</u>	<u>\$2,789,946</u>	<u>\$288,057</u>	<u>\$97,447</u>	<u>\$5,678,847</u>	<u>\$528,708</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>						
Operating Income (Loss)	\$922,059	\$457,512	\$216,526	(\$573,173)	\$1,022,924	(\$22,357)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities</u>						
Depreciation	812,388	157,201	75,539	114,643	1,159,771	34,269
Changes in Assets and Liabilities:						
Increase in Accounts Receivable	(214,007)	(6,729)	(132,549)	(4,611)	(357,896)	(218)
Increase in Due from Other Governments	(1,935)	0	0	(33,389)	(35,324)	0
Increase in Interfund Receivable	(179)	0	0	0	(179)	(44,371)
(Increase) Decrease in Prepaid Items	(45,027)	1,325	(2,812)	(4,764)	(51,278)	(1,985)
Increase in Materials and Supplies Inventory	(4,755)	0	0	0	(4,755)	(38,362)
Increase (Decrease) in Accrued Wages Payable	373	0	4,505	(5,907)	(1,029)	(68)
Increase (Decrease) in Accounts Payable	115,509	(39,653)	4,928	(1,141)	79,643	(43,341)
Decrease in Due to Other Governments	(8,498)	0	(235)	(10,402)	(19,135)	(2,548)
Increase in Interfund Payable	5,656	2,367	13,781	4,815	26,619	0
Increase in Deferred Revenue	0	0	1,516	526	2,042	0
Increase in Closure Postclosure Payable	0	0	121,058	0	121,058	0
Increase (Decrease) in Compensated Absences Payable	41,431	0	7,005	(27,086)	21,350	4,442
Net Cash Provided by (Used for) Operating Activities	<u>\$1,623,015</u>	<u>\$572,023</u>	<u>\$309,262</u>	<u>(\$540,489)</u>	<u>\$1,963,811</u>	<u>(\$114,539)</u>

See Accompanying Notes to the Basic Financial Statements

City of Marion  
Statement of Assets and Liabilities  
Agency Funds  
December 31, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	\$106,638
Accounts Receivable	<u>5,497</u>

Total Assets	<u><u>\$112,135</u></u>
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Liabilities

Accounts Payable	\$13,511
Due to Other Governments	15,013
Deposits Held and Due to Others	<u>83,611</u>

Total Liabilities	<u><u>\$112,135</u></u>
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See Accompanying Notes to the Basic Financial Statements

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**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

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**NOTE 1 - DESCRIPTION OF THE CITY OF MARION AND THE REPORTING ENTITY**

**A. The City**

The City of Marion is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. It became a city in 1890.

The City operates under an elected Mayor/Council form of government. Legislative power is vested in a nine-member City Council and a Council President, each elected to two-year terms. The Mayor is elected to a four-year term and is the chief executive officer for the City. All city officials, with the exception of the Safety/Service Director, are elected positions. The Mayor appoints the Safety/Service Director.

The City of Marion is divided into various departments and financial management and control systems. Services provided include police protection, fire protection, health services, street maintenance and repair, parks and recreation, public transit system, sewer, sanitation, and recycling services, as well as staff support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

**B. Reporting Entity**

The reporting entity of the City of Marion is comprised of the primary government and jointly governed organizations. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Marion this includes the municipal court, health department, and all departments that are directly operated by the elected City officials. The City participates in three jointly governed organizations; the Marion County Disaster Services Board, the Marion County Regional Planning Commission, and the Marion County Family and Children First Council. (See Note 19)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Marion have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements issued after November 30, 1989, to its business-type activity and enterprise funds. Following are the more significant of the City's accounting policies.

**A. Basis of Presentation**

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide more detailed level of financial information.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation (Continued)**

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the City are reported in three categories: governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund – The General Fund accounts for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Fund Accounting (Continued)**

Governmental Funds (Continued)

Street Fund – This fund accounts for state gasoline tax and motor vehicle registration fees for maintenance and improvement of City roads.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund – This fund accounts for the provision of wastewater treatment service to residential and commercial users within the City service area.

Storm Sewer Fund – This fund accounts for the provision of stormwater utility to residential and commercial users within the City.

Sanitation Fund – This fund accounts for the provision of sanitation service to residential and commercial users within the City.

Internal Service Funds – The internal service funds account for the financing of services provided by one department to other departments of the City on a cost reimbursement basis.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2003. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for donations for recreation programs, donations for juvenile safety awareness, donations and fines for law enforcement investigations and training, assets held by the City for distribution to others in which the City acts as fiscal agent, and fines and forfeitures collected and distributed to other political subdivisions.

**C. Measurement Focus**

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus (Continued)**

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reflects the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its proprietary activities.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days after year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from income taxes is recognized in the year in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Basis of Accounting (Continued)**

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: income taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, and interest.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2003, were levied to finance 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations resolution is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund/function/object level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by City Council.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by City Council during the year.

**F. Cash and Investments**

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Cash and cash equivalents that are held separately for the City by fiscal or escrow agents and not held with the City Treasurer are recorded as "Cash and Cash Equivalents With Fiscal Agent." On December 31, 2003, the City had a balance of \$287.

The City's investments in nonnegotiable certificates of deposit are reported at cost. Star Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2003.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2003 was \$232,436, which includes \$206,526 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**H. Material and Supplies Inventory**

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Notes Receivable**

Notes receivable represent the right to receive repayment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients. Reported notes receivable is offset by a fund balance reserve in the governmental fund types for the long-term portion, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**J. Capital Assets**

General capital assets are capital assets, which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported on the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the proprietary funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land, some land improvements, and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Classification</u>	<u>Life</u>
Land Improvements	10-25 Years
Streets	15 Years
Buildings and Structures	10-40 Years
Machinery and Equipment	5-15 Years
Furniture and Fixtures	10 Years
Trucks, Autos and Buses	5-10 Years

The City's buildings and structures consist of buildings, sewer lines, and storm sewers.

**K. Interfund Receivables/Payables**

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the governmental-wide statements of net assets are those between governmental and business-type activities. These amounts are presented as "Internal Balances."

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's union contracts.

The entire compensated absences liability is reported on the government-wide financial statements. For the proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as liabilities on the fund financial statements when due.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Other purposes restricted net assets include activities for construction, repair, and maintenance of State highways and local streets, recreation, loans to local businesses, and other revenues restricted by use for the municipal court and police and fire departments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**O. Fund Balance Reserves**

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances and notes receivable.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**P. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, storm sewer, sanitation, recycling, swimming pool, transit, and internal service fund services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

**Q. Capital Contributions**

Capital contributions on the proprietary fund financial statements arise from grants restricted to capital acquisition and construction.

**R. Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

**T. Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY**

**A. Changes in Accounting Principles**

For 2003, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements."

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY  
(Continued)**

**A. Changes in Accounting Principles (Continued)**

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements, which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

The government-wide financial statements split the City's programs between governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2003, caused by the elimination of the internal service fund and the conversion to the full accrual basis of accounting. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the proprietary funds from the prior fiscal year.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the City uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the City's financial statements for the year ended December 31, 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

In fiscal year 2003, the City began recording inventory according to the consumption method. In prior years, it was recorded using the purchase method.

**B. Correction of an Error**

In the prior year, the City incorrectly recorded Income Tax Payable and Inheritance Tax.

**C. Restatement of Fund Equity**

The restatement due to implementation of the above statements and interpretation had the following effects on fund equity of the major and nonmajor funds of the City as they were previously reported.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY  
(Continued)**

**C. Restatement of Fund Equity (Continued)**

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance December 31, 2002	\$5,788,221	\$458,735	\$2,383,895	\$8,630,851
Correction of an Error				
Inheritance Tax	38,005	0	0	38,005
Income Tax Payable	(122,341)	0	(1,092)	(123,433)
GASB Statement No. 34 Adjustment:				
Change in Fund Structure – Trust Fund	0	0	21,367	21,367
GASB Interpretation No. 6 Adjustment:				
Compensated Absences Payable	<u>224,327</u>	<u>46,362</u>	<u>29,461</u>	<u>300,150</u>
Adjusted Balance	<u>\$5,928,212</u>	<u>\$505,097</u>	<u>\$2,433,631</u>	\$8,866,940
GASB Statement No. 34 Adjustments:				
Intergovernmental Receivable				1,634,727
Property Tax Receivable				150,170
Income Tax Receivable				462,748
Special Assessment Receivable				91,967
Capital Assets				36,722,507
Interest Payable				(42,198)
Loans Payable				(1,851,904)
OPWC Loans Payable				(124,997)
General Obligation				(1,623,000)
Compensated Absences Payable				(3,068,305)
Internal Service Fund				<u>472</u>
Governmental Activities Net Assets at December 31, 2002				<u>\$41,219,127</u>

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY  
(Continued)**

**C. Restatement of Fund Equity (Continued)**

The restatement of the Business-Type Activities:

	<u>Sewer</u>	<u>Storm Sewer</u>	<u>Sanitation</u>	<u>Other Enterprise Funds</u>	<u>Total Business- Type Activities</u>
Fund Equity December 31, 2002	\$9,474,215	\$5,213,666	(\$3,481,950)	\$790,883	\$11,996,814
GASB Statement No. 34 Adjustment					
Internal Service					35,634
Adjusted Net Assets December 31, 2002					\$12,032,448

**NOTE 4 – ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

The School Resource, ASAP, Police and Fire Pension, and Help Me Grow special revenue funds had deficit fund balances, in the amount of \$4,932, \$379, \$14, and \$7,823, respectively. The deficit in the School Resource and Police and Fire Pension special revenue funds resulted from reporting accrued expenditures. The deficits will be alleviated when additional revenues are received. The deficit in the ASAP and Help Me Grow special revenue funds resulted from advances from the General Fund. The deficits will be alleviated when revenues are received to repay the advances.

The Sanitation enterprise fund has deficit net assets in the amount of \$3,365,499 as a result of recording loan payable amounts and landfill postclosure liability on the Statement of Fund Net Assets. Under the budgetary basis, proceeds from loans are recognized as revenue; therefore, deficit does not exist. The General fund provides operating transfers upon City Council's approval when cash is required not when accruals occur.

**NOTE 5 – BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – for the General and Street Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 5 – BUDGETARY BASIS OF ACCOUNTING (Continued)**

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

Net Change in Fund Balance		
	<u>General</u>	<u>Street</u>
GAAP Basis	(\$1,883,532)	(\$195,925)
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2002, Received In Cash 2003	1,870,107	275,596
Accrued 2003, Not Yet Received in Cash	(1,472,549)	(290,201)
Expenditure Accruals:		
Accrued 2002, Paid In Cash 2003	(1,077,010)	(108,152)
Accrued 2003, Not Yet Paid in Cash	1,301,262	174,613
Cash Adjustments:		
Prepaid Items	(42,079)	(5,106)
Materials and Supplies Inventory	3,274	0
Advances In	643,720	0
Advances Out	(375,124)	0
Encumbrances Outstanding at Year End (Budget Basis)	(867,572)	(72,909)
Petty Cash to Bank	80	0
Budget Basis	<u>(\$1,899,423)</u>	<u>(\$222,084)</u>

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 6 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the city treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the City Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Governmental National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio);

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year-end, the City had \$8,082 in undeposited cash on hand, deposits in transit in the amount of \$6,082, and "Petty Cash" in the amount of \$2,000.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At year-end, the carrying amount of the City's deposits was \$9,362,349 and the bank balance was \$9,641,847. Of the bank balance:

1. \$700,000 was covered by federal depository insurance.
2. \$8,941,847 was uninsured and uncollateralized. Although all statutory requirements for these deposits of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered for which the securities are held by the City or the City's agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 1</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Municipal Bonds	<u>523,000</u>	<u>\$ 523,000</u>	<u>\$ 523,000</u>
	<u>\$523,000</u>	<u>523,000</u>	<u>523,000</u>
STAR Ohio		<u>1,750,041</u>	<u>1,750,041</u>
		<u>\$2,273,041</u>	<u>\$2,273,041</u>

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)**

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$11,643,472	0
Cash on Hand	(8,082)	0
Investments:		
Municipal Bonds	(523,000)	523,000
STAR Ohio	<u>(1,750,041)</u>	<u>1,750,041</u>
GASB Statement 3	<u>\$9,362,349</u>	<u>\$2,273,041</u>

**NOTE 7 - RECEIVABLES**

Receivables at December 31, 2003, consisted of accounts (billings for user charged services, including unbilled utility services); intergovernmental receivables arising from grants, entitlements, and shared revenues; accrued interest, income taxes; interfund; property taxes; notes; and special assessments. All receivables are considered collectible in full and within one year, except for the allowance for uncollectibles related to utility services, notes, and special assessments.

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant program. The loans have an annual interest rate of 3 to 5 percent and are to be repaid over periods ranging from three to twenty years. Principal, in the amount of \$22,527, was repaid during the year. Loans outstanding at December 31, 2003, were \$1,253,541. Notes receivable, in the amount of \$1,231,588, will not be received within one year.

A summary of accounts receivable related to utility services is as follows:

	<u>Sewer</u>	<u>Storm Sewer</u>	<u>Sanitation</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Accounts Receivable	\$1,348,877	\$382,780	\$750,151	\$61,766	\$2,543,574
Less Allowance for Uncollectibles	<u>(54,000)</u>	<u>(19,000)</u>	<u>(106,000)</u>	<u>(9,000)</u>	<u>(188,000)</u>
Net Accounts Receivable	<u>\$1,294,877</u>	<u>\$363,780</u>	<u>\$644,151</u>	<u>\$52,766</u>	<u>\$2,355,574</u>

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 7 – RECEIVABLES (Continued)**

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$ 72,624
Inheritance Tax	80,503
Local Government	639,475
Local Government Revenue Assistance	118,082
Court Cost Reimbursement	<u>7,131</u>
Total General Fund	<u>917,815</u>
Street Fund	
Gasoline Tax	398,242
Motor Vehicle License Tax	<u>141,155</u>
Total Street Fund	<u>539,397</u>
Total Major Funds	<u>1,457,212</u>
Nonmajor Funds	
Senior Citizens III-B	
Grants	<u>1,888</u>
Total Senior Citizens III-B	<u>1,888</u>
State Highway Fund	
Gasoline Tax	31,502
Motor Vehicle License Tax	<u>11,445</u>
Total State Highway Fund	<u>42,947</u>
Violence Against Women Fund	
Grants	<u>25,028</u>
Total Violence Against Women Fund	<u>25,028</u>
Community Distress Fund	
Grants	<u>8,393</u>
Total Community Distress Fund	<u>8,393</u>
Health Fund	
Grants	11,026
Charges for Services	<u>452</u>
Total Health Fund	<u>11,478</u>
Smart Program Fund	
Grants	<u>1,000</u>
Total Smart Program Fund	<u>1,000</u>
ASAP Program Fund	
Grants	<u>198</u>
Total ASAP Program Fund	<u>198</u>
Enforcement and Education Fund	
Charges for Services	<u>400</u>
Total Enforcement and Education	<u>400</u>
Police and Fire Pension Fund	
Homestead and Rollback	<u>12,969</u>
Total Police and Fire Pension Fund	<u>12,969</u>
Help Me Grow Fund	
Grants	<u>12,544</u>
Total Help Me Grow Fund	<u>12,544</u>

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 7 – RECEIVABLES (Continued)**

CHIP Grant Fund	
Grants	<u>292,063</u>
Total CHIP Grant Fund	<u>292,063</u>
Formula Grant Fund	
Grants	<u>200,710</u>
Total Formula Grant Fund	<u>200,710</u>
Airport Improvement Fund	
Grants	<u>613,494</u>
Total Airport Improvement Fund	<u>613,494</u>
Total Nonmajor Governmental Funds	<u>1,223,112</u>
Total Governmental Activities	<u>\$2,680,324</u>
Business-Type Activities	
Sewer Fund	
Charges for Services	<u>1,935</u>
Total Sewer Fund	<u>1,935</u>
Other Enterprise Funds	
Grants	<u>\$36,897</u>
Charges for Services	<u>148</u>
Total Other Enterprise Funds	<u>37,045</u>
Total Business Type Activities	<u>\$38,980</u>

**NOTE 8 – MUNICIPAL INCOME TAXES**

The City levies and collects an income tax of 1 3/4% on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax is credited to the General Fund, Street Fund, Bond Retirement Fund, and the Capital Improvement Fund.

**NOTE 9 – PROPERTY TAXES**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2003 represent the collection of 2002 taxes. Real property taxes received in 2003 were levied after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2003 represent the collection of 2002 taxes. Public utility real and tangible personal property taxes received in 2003 became a lien on December 31, 2001, were levied after October 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 9 – PROPERTY TAXES (Continued)**

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2003 taxes. Tangible personal property taxes received in 2003 were levied after October 1, 2002, on the true value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Marion. The County Auditor periodically remits to the City its portion of the taxes collected.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2003, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2003 operations. The portion of the receivable not levied to finance current year operations is offset by a credit to deferred revenue.

On a full accrual basis, collectible delinquent real property taxes have been recorded as a receivable and revenue. On the modified accrual basis, the revenue is deferred.

The full tax rates applied to real property for the fiscal year ended December 31, 2003, per taxing district, per \$1,000 of assessed valuation are as follows:

Marion City School District	\$4.2
Elgin Local School District	3.2
Pleasant Local School District	1.5
River Valley Local School District	3.3
Ridgedale Local School District	2.0

The assessed values of real property, public utility property, and tangible personal property upon which 2003 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property	\$ 330,271,120
Public Utility Property	19,559,020
Tangible Personal Property	<u>43,721,000</u>
Total Assessed Value	<u>\$ 393,551,140</u>

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 10 – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
<b>Governmental Activities:</b>				
<b>Nondepreciable Capital Assets</b>				
Land and Land Improvements	\$ 6,466,766	\$0	\$0	\$ 6,466,766
Construction in Progress	2,808,621	1,256,649	(2,088,629)	1,976,641
<b>Total Nondepreciable Capital Assets</b>	<b>9,275,387</b>	<b>1,256,649</b>	<b>(2,088,629)</b>	<b>8,443,407</b>
<b>Depreciable Capital Assets</b>				
Land Improvements and Streets	33,044,297	384,712	0	33,429,009
Buildings, Structures, and Sewers	6,927,620	1,717,007	(4,940)	8,639,687
Machinery and Equipment	2,946,070	363,289	(363,355)	2,946,004
Furniture and Fixtures	281,790	7,132	(23,121)	265,801
Vehicles	3,079,664	310,151	(155,171)	3,234,644
<b>Total Depreciable Capital Assets</b>	<b>46,279,441</b>	<b>2,782,291</b>	<b>(546,587)</b>	<b>48,515,145</b>
<b>Less accumulated Depreciation for</b>				
Land Improvements and Streets	(12,720,122)	(1,999,968)	0	(14,720,090)
Buildings, Structures, and Sewers	(245,846)	(56,389)	3,415	(298,820)
Machinery and Equipment	(1,674,993)	(210,291)	304,111	(1,581,173)
Furniture and Fixtures	(207,702)	(13,082)	23,121	(197,663)
Vehicles	(2,209,728)	(221,875)	144,574	(2,287,029)
<b>Total Accumulated Depreciation</b>	<b>(17,058,391)</b>	<b>(2,501,605)</b>	<b>475,221</b>	<b>(19,084,775)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>29,221,050</b>	<b>280,686</b>	<b>(71,366)</b>	<b>29,430,370</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 38,496,437</b>	<b>\$1,537,335</b>	<b>\$ (2,159,995)</b>	<b>\$ 37,873,777</b>

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
<b>Business-Type Activities:</b>				
<b>Nondepreciable Capital Assets</b>				
Land	\$ 325,456	\$0	\$0	\$ 325,456
Construction in Progress	21,563,776	3,067,400	(1,409,016)	23,222,160
<b>Total Nondepreciable Capital Assets</b>	<b>21,889,232</b>	<b>3,067,400</b>	<b>(1,409,016)</b>	<b>23,547,616</b>
<b>Depreciable Capital Assets</b>				
Land Improvements	1,836,594	0	(86,988)	1,749,606
Buildings, Structures, and Sewers	26,342,754	3,712,818	(330,650)	29,724,922
Machinery and Equipment	2,020,083	131,558	(58,567)	2,093,074
Furniture and Fixtures	62,166	5,069	0	67,235
Vehicles	2,339,526	109,069	(356,599)	2,091,996
<b>Total Depreciable Capital Assets</b>	<b>32,601,123</b>	<b>3,958,514</b>	<b>(832,804)</b>	<b>35,726,833</b>
<b>Less Accumulated Depreciation for</b>				
Land Improvements	(1,437,678)	(73,856)	30,581	(1,480,953)
Buildings, Structures, and Sewers	(9,004,880)	(749,202)	205,993	(9,548,089)
Machinery and Equipment	(1,137,323)	(148,271)	52,196	(1,233,398)
Furniture and Fixtures	(52,703)	(1,866)	0	(54,569)
Vehicles	(1,525,840)	(191,275)	292,452	(1,424,663)
<b>Total Accumulated Depreciation</b>	<b>(13,158,424)</b>	<b>(1,164,470)</b>	<b>581,222</b>	<b>(13,741,672)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>19,442,699</b>	<b>2,794,044</b>	<b>(251,582)</b>	<b>21,985,161</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$41,331,931</b>	<b>\$5,861,444</b>	<b>(\$1,660,598)</b>	<b>\$45,532,777</b>



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 10 – CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property	\$ 231,888
Public Health	6,240
Leisure Time Activities	107,466
Community Environment	34
Transportation	2,088,577
General Government	<u>67,400</u>
Total Depreciation Expense – Governmental Activities	<u>\$2,501,605</u>

**NOTE 11 – INTERFUND RECEIVABLES/PAYABLES**

At December 31, 2003, the General Fund had an interfund receivable, in the amount of \$141,362, from other governmental funds to provide cash flow resources until the receipt of grant moneys and for services provided.

Other Governmental Funds had an interfund receivable, in the amount \$20,000, from other governmental funds to provide cash flow resources until the receipt of grant moneys.

The Sewer enterprise fund had an interfund receivable, in the amount of \$1,624, for services provided to the Sanitation Enterprise Fund.

The Internal Service Funds had an interfund receivable, in the amount of \$70,197, for services provided to other funds, the General Fund, in the amount of \$14,652, the Street Fund, in the amount of \$19,139, Other Governmental Funds, in the amount of \$1,945, the Sewer Fund, in the amount of \$5,656, the Storm Sewer Fund, in the amount of \$2,548, Sanitation Fund, in the amount of \$17,250 and Other Enterprise Funds, in the amount of \$9,007.

**NOTE 12 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted with the Ohio Municipal League Joint Self-Insurance Pool, an insurance purchasing pool, for the following coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Property (Building and Contents)	\$42,264,224	\$1,000
Earthquake	500,000	5,000
Electronic Data and Equipment	429,853	250
Valuable Papers and Records	100,000	1,000
Extra Expense	50,000	1,000
Employee Benefits Liability (per occurrence)	1,000,000	5,000
Employee Benefits Liability (aggregate)	5,000,000	5,000
Public Official Liability	5,000,000	15,000
Police Professional Liability	5,000,000	10,000
General Liability (per occurrence)	5,000,000	5,000
General Liability (aggregate)	5,000,000	5,000
Contractors Equipment	599,000	500

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 12 – RISK MANAGEMENT (Continued)**

Auto Fleet liability/Physical Damage	5,000,000	1,000
EMT Professional Liability	5,000,000	5,000
Miscellaneous Tools	25,000	500
Uninsured Motorists	40,000	0
Stop Gap	100,000	5,000

Settled claims have not exceeded this commercial coverage in any of the last three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administration costs.

**NOTE 13 – DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS), OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, OH 43215-4642.

For the year ended December 31, 2003, members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002 and 2001 were \$615,086, \$601,621, and \$623,657 respectively; 92 percent has been contributed for 2003 and 100 percent has been contributed for 2002 and 2001. \$47,539 representing the unpaid contribution for 2003 is recorded as a liability within the respective funds. Contributions to the member-directed plan for 2003 were \$4,717 made by the City and \$2,959 made by plan members.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 13 – DEFINED BENEFIT PENSION PLANS (Continued)**

**B. Ohio Police and Fire Pension Fund (OP&F)**

The City contributes to the Ohio Police and Fire Pension Fund (Fund), a cost-sharing, multiple-employer defined benefit pension plan administered by the Fund's Board of Trustees. The Fund provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police; and 16.25 percent for firefighters. Contributions are authorized by State Statute. Marion City's contributions to the Fund for the years ended December 31, 2003, 2002 and 2001 were \$849,686, \$840,475, and \$839,132 respectively; 94 percent has been contributed for 2003 and 100 percent has been contributed for 2002 and 2001. The unpaid contribution for 2003, in the amount of \$54,690, is recorded as a liability.

**NOTE 14 – POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers." A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion used to fund health care for the year.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually, and an additional increase in total payroll of .50 percent to 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

At December 31, 2003, the total number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The City's actual contributions for 2003 which were used to fund postemployment benefits were \$362,452. \$10 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002, the latest information available. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 14 – POSTEMPLOYMENT BENEFITS (Continued)**

**B. Ohio Police and Fire Pension Fund (OP&F)**

The Ohio Police and Fire Pension Fund (Fund) provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen, whether or not the child is attending school, or under the age of twenty-two if attending school full-time or on a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the Fund shall be included in the employer's contribution rate. Healthcare funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate was 19.5 percent of covered payroll and the firefighter employer contribution was 24 percent; 7.75 percent was the portion used to fund health care in 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2002, the date of the last information available, are 13,527 for Police and 10,396 for Firefighters. The City's actual contributions for 2003 that were used to pay post-employment benefits were \$234,063 for Police and \$235,771 for Firefighters. The Fund's total health care expenses for the year ended December 31, 2002, were \$141,028,006, which was net of member contributions of \$12,623,875.

**NOTE 15 – OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws.

City employees earn and accumulate vacation at varying rates depending on length of service. Current policy credits vacation leave on the employee's anniversary date. Employees are paid for 100 percent of earned unused vacation leave upon termination.

Sick leave is earned at various rates as defined by City policy and union contracts and accumulated without limit. Sick leave benefits are paid upon retirement based on various rates and maximums depending on the contract.

**B. Health Care Benefits**

The City provides medical/surgical benefits through United Health Care, a health maintenance organization. Dental Insurance and Life Insurance Benefits are provided through Metlife Insurance Company. The employees share the cost of the monthly premium with the City. The premium varies with employee depending on marital and family status and on the union contract where applicable.

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 16 – SIGNIFICANT CONTRACTUAL COMMITMENTS**

	<u>Contract Amount</u>	<u>Amount Paid As of 12/31/03</u>	<u>Balance</u>
Carl's Plumbing & Heating, Inc.	\$ 1,345,767	\$ 1,204,674	\$ 141,093
Rhodes Heating & AC, Inc.	117,097	0	117,097
Romanko Sales & Service, Inc.	543,398	300,022	243,376
S.E. Johnson Companies, Inc.	394,884	0	394,884
SCI, Inc.	370,000	23,685	346,315
Shook, Inc.	14,846,725	14,703,350	143,375
Smeal Fire Apparatus Company	727,975	0	727,975
Underground Utilities, Inc.	1,307,046	0	1,307,046
Yager Consultants, Inc.	118,500	44,800	73,700

**NOTE 17 – NOTES PAYABLE**

A summary of the note transactions for the year ended December 31, 2003, is as follows:

	<u>Balance 1/1/03</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/03</u>
Central Garage Notes:				
April 24, 2002 (2.59%)	\$1,780,000	\$ 0	\$1,780,000	\$ 0
April 22, 2003 (1.50%)	0	1,780,000	0	1,780,000
Totals	<u>\$1,780,000</u>	<u>\$1,780,000</u>	<u>\$1,780,000</u>	<u>\$1,780,000</u>

The Central Garage Notes were issued to finance the construction of a City Central Garage Building. All of the City's bond anticipation notes are backed by the full faith and credit of the City of Marion and have a maturity within one year.

**NOTE 17 – LONG-TERM OBLIGATIONS**

The original issue date, interest rate, and original issue amount for the City's long-term obligations are as follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General Obligation Bonds:			
Various Purpose	2001	5.194%	\$ 8,730,000
Harding Centre	1999	5.250%	600,000
OPWC Loans:			
WWTP Upgrade	2001	0%	1,060,092
Sewer Improvements	2003	0%	142,027
Storm Sewer Improvements	2003	0%	126,963
Williamsport Rd Improvement	2002	0%	128,202
Storm Sewer Improvements	2002	0%	119,185
Sewer Improvements	2000	0%	157,168
Sewer Improvements	1995	0%	700,000
OWDA Loans:			
Sewer Improvement	1997	4.560%	2,140,055
Landfill Closure	1996	4.350%	2,720,754
Land Improvement	1998	4.250%	2,020,033
WWTP Upgrade	2002	1.500%	25,933,112

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 17 – LONG-TERM OBLIGATIONS (Continued)**

The City's long-term obligations activity for the year ended December 31, 2003, was as follows:

	Balance <u>12/31/02</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/03</u>	Due Within <u>One Year</u>
<u>Governmental Activities</u>					
Taxable Housing Bonds	\$ 543,000	\$ -	\$ 20,000	\$ 523,000	\$ 22,000
Police and Fire Pension Funds	1,080,000	-	40,000	1,040,000	40,000
ODOT DRIP TIF Loan	1,851,904	-	135,229	1,716,675	141,038
OPWC Loan	124,997	-	6,410	118,587	6,410
Compensated Absences	<u>3,118,827</u>	<u>256,528</u>	<u>-</u>	<u>3,375,355</u>	<u>7,436</u>
Total Governmental Activities	<u>\$ 6,718,728</u>	<u>\$ 256,528</u>	<u>\$ 201,639</u>	<u>\$ 6,773,617</u>	<u>\$ 216,884</u>
 <u>Business-Type Activities</u>					
OWDA Loans	\$ 27,498,280	\$ 2,242,748	\$ 1,400,520	\$ 28,340,508	\$ 1,328,083
OPWC Loans	1,077,796	905,008	58,162	1,924,642	117,891
Sewer Bonds	2,520,000	-	90,000	2,430,000	95,000
Storm Sewer Bonds	4,610,000	-	165,000	4,445,000	175,000
Landfill Closure/Postclosure	2,551,500	121,058	-	2,672,558	0
Compensated Absences	<u>475,474</u>	<u>35,648</u>	<u>-</u>	<u>511,122</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 38,733,050</u>	<u>\$ 3,304,462</u>	<u>\$ 1,713,682</u>	<u>\$ 40,323,830</u>	<u>\$ 1,715,974</u>

General Obligation Bonds

In 2001, the City issued \$8,730,000 in various purpose general obligation bonds for prepaying the City's Police and Fire Pension Fund obligation, sanitary sewer improvements and storm sewer improvements. The Police and Fire Bonds are to be paid from the general revenues of the City. The Sanitary Sewer Bonds and the Storm Sewer Bonds will be paid from the Sewer Fund and the Storm Sewer Fund, respectively. All general obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment.

Taxable Housing Bonds

In 1999, the City issued \$600,000 in taxable housing bonds related to the Harding Centre Project. The bond is backed by the full faith and credit of Marion City. The Marion Senior Housing Limited Partnership entered into a loan agreement with the City obligating the Partnership to pay the City the amount necessary to retire the bond. This is reflected as a note receivable in the Debt Service Fund.

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 17 – LONG-TERM OBLIGATIONS (Continued)**

Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC)

The OWDA and OPWC loans are for utility construction projects. Property and revenue of the utility facilities have been pledged to repay these debts.

During 2001, the City entered into a loan agreement with the Ohio Environmental Protection Agency and the Ohio Water Development Authority for the upgrade of a wastewater treatment plant. As part of the loan agreement, the City agreed to participate in the Ohio EPA's Water Resource Restoration Sponsor Program (WRRSP) to provide an amount not to exceed \$6 million to North Coast Regional Council of Park Districts Erie Metroparks for an environmental improvement project. Under the loan agreement, the City's loan was restructured by (a) increasing the principal amount of the loan by an amount not to exceed \$6 million, and (b) reducing the loan's interest rate to a percentage that reflects a savings equal to the principal and interest cost of the WRRSP project. During 2003, the City received \$2,242,748 of loan proceeds which are included as loans payable in the enterprise fund type on the accompanying financial statements. Of those proceeds, \$524,098 was paid to Erie Metroparks for the WRRSP environmental project.

Compensated Absences Payable

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund; Street Fund, Health, WIC, Parks and Community Corrections special revenue funds; the Transit, Sewer, and Sanitation enterprise funds; and the Central Garage and Utility Billing internal service funds.

The City's legal debt margin was \$20,082,313 at December 31, 2003.

The following is a summary of the City's future annual debt service requirements for long-term obligations:

GOVERNMENTAL						
	GENERAL OBLIGATION BONDS		ODOT LOAN		OPWC LOAN	
YEAR	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$62,000	\$79,865	\$141,038	\$71,476	\$6,410	\$0
2005	68,000	76,884	147,096	65,418	6,410	0
2006	69,000	73,603	153,414	59,100	6,410	0
2007	70,000	70,246	160,003	52,511	6,410	0
2008	77,000	66,789	166,875	45,638	6,410	0
2009-2013	435,000	273,056	948,249	114,320	32,051	0
2014-2018	560,000	146,683	0	0	32,051	0
2019-2023	222,000	15,544	0	0	22,435	0
<b>TOTAL</b>	<b>\$1,563,000</b>	<b>\$802,670</b>	<b>\$1,716,675</b>	<b>\$408,463</b>	<b>\$118,587</b>	<b>\$0</b>

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

**NOTE 17 – LONG-TERM OBLIGATIONS (Continued)**

BUSINESS-TYPE ACTIVITIES

YEAR	OPWC LOANS - SEWER		OWDA LOANS – SEWER		GO BOND - SEWER	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$105,584	\$0	\$1,204,392	\$443,011	\$95,000	\$123,790
2005	105,584	0	1,225,723	421,680	100,000	119,515
2006	105,584	0	1,247,523	399,880	105,000	114,965
2007	105,584	0	1,269,805	377,597	110,000	110,135
2008	105,584	0	1,292,585	354,818	115,000	105,020
2009-2013	527,919	0	6,823,080	1,413,934	660,000	436,875
2014-2018	340,769	0	7,008,475	781,485	840,000	249,040
2019-2023	296,978	0	6,367,456	241,158	405,000	33,210
<b>TOTAL</b>	<b>\$1,693,586</b>	<b>\$0</b>	<b>\$26,439,039</b>	<b>\$4,433,563</b>	<b>\$2,430,000</b>	<b>\$1,292,550</b>

BUSINESS-TYPE ACTIVITIES

YEAR	OPWC LOANS - STORM		GO BOND – STORM		OWDA LOAN –SANITATION	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	12,307	0	175,000	226,490	123,691	81,383
2005	12,307	0	180,000	218,615	129,130	75,944
2006	12,307	0	190,000	210,425	134,808	70,266
2007	12,307	0	200,000	201,685	140,736	64,338
2008	12,307	0	210,000	192,385	146,925	58,149
2009-2013	61,535	0	1,200,000	800,680	837,407	187,963
2014-2018	61,535	0	1,555,000	457,200	388,772	21,376
2019-2023	46,451	0	735,000	59,940	0	0
<b>TOTAL</b>	<b>\$231,056</b>	<b>\$0</b>	<b>\$4,445,000</b>	<b>\$2,367,420</b>	<b>\$1,901,469</b>	<b>\$559,419</b>

**NOTE 18 – INTERFUND TRANSFERS**

The General Fund made transfers to other governmental funds, other enterprise funds, and the City Garage internal service fund, in the amount of \$993,333, \$72,000, and \$75,000, respectively, to subsidize various programs. Nonmajor governmental funds made transfers to other enterprise funds and the City Garage internal service fund, in the amount of \$4,425, and \$45,846, respectively, to distribute monies to other funds.



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 19 – JOINTLY GOVERNED ORGANIZATIONS**

**A. Marion County Disaster Services Board**

The Marion County Disaster Services Board (Board) is governed by the City, fifteen townships, seven villages, and Marion County. Under the authority of Ohio Revised Code Section 5915.06, the five members of the advisory council are appointed as follows: one county commissioner, one township trustee appointed by all of the trustees, one mayor appointed by all of the villages or their appointed designee, one member from the city, and one member appointed by the other four members. The Board does not have any outstanding debt. In 2003, the City paid membership dues of \$12,000 to the operation of the Board. Information can be obtained from the Marion County Disaster Services Board, Don Caprino, 200 South Elm Street, Prospect, Ohio 43342.

**B. Marion County Regional Planning Commission**

The City participates in the Marion County Regional Planning Commission (Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among the County, the municipalities, and the townships. The Commission makes studies, maps, plans, recommendations, and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions, and services within the County. In 2003, the City paid membership dues of \$58,000 toward the operation of the Commission. Information can be obtained from the Marion County Regional Planning Commission, Ken Lengieza, 222 West Center Street, Marion, Ohio 43302.

**C. Marion County Family and Children First Council**

The Marion County Family and Children First Council (Council) provides services to multi-need youth in Marion County. There are fifteen organizations which are members of the Council, including the City. The operation of the Council is controlled by a board consisting of representatives of the member organizations. Members refer cases to the Council who determines how the case is to be handled. In 2003, the City paid membership dues of \$500 toward the operation of the Council.

**NOTE 20 – CONTINGENT LIABILITIES**

**A. Litigation**

The City is a party to several legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**B. Federal and State Grants**

For the period January 1, 2003, to December 31, 2003, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003  
(Continued)**

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**NOTE 21 – LANDFILL POSTCLOSURE CARE COSTS**

State and Federal laws and regulations require that the City of Marion place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The landfill stopped accepting waste in 1992. An expense provision and related liability were recognized in 1993 based on the estimated postclosure care costs to be incurred after the date the landfill stopped accepting waste. The estimated liability for landfill postclosure care costs has a balance of \$2,672,558 as of December 31, 2003, which is based on 100% usage (filled) of the landfill. The estimated total current costs of the landfill postclosure care (\$2,672,558) are based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of December 31, 2003. However, the actual cost of postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations.

The City of Marion demonstrates financial assurance for its postclosure obligations by meeting the “Local Government Financial Test”.

**NOTE 22 – SUBSEQUENT EVENTS**

On January 22, 2004, the City issued bond anticipation notes, in the amount of \$1,780,000, to retire notes previously issued to construct a new Central Garage Building. The notes have an interest rate of 1.45% and mature on October 21, 2004.

On October 21, 2004, the City issued bond anticipation notes, in the amount of \$4,102,000. \$1,780,000 to finance the construction of a new Central Garage Building, \$1,225,000 to finance sanitary sewer improvements, and \$1,097,000 to finance storm sewer improvements.

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

<u>Federal Grantor</u>	Federal	Pass Through	
<i>Pass-Through Grantor</i>	CFDA	Entity	
Program Title	Number	Number	Disbursements
<b><u>UNITED STATES DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed through Ohio Department of Health</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	214-D	\$247,499
<b>Total U.S. Department of Agriculture</b>			<b>247,499</b>
<b><u>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant - State's Program	14.228	A-C-00-142-1	7,465
Community Development Block Grant - State's Program	14.228	A-C-02-142-1	108,692
Community Development Block Grant - State's Program	14.228	A-F-01-142-1	27,269
Community Development Block Grant - State's Program	14.228	A-F-02-142-1	201,917
Community Development Block Grant - State's Program	14.228	A-X-01-142-1	290,650
Total Community Development Block Grant - State's Program			<b>635,993</b>
Home Investment Partnership Program	14.239	A-C-00-142-2	4,707
Home Investment Partnership Program	14.239	A-C-02-142-2	152,196
Total Home Investment Partnership Program			<b>156,903</b>
<b>Total - U.S. Department of Housing and Urban Development</b>			<b>792,896</b>
<b><u>UNITED STATES DEPARTMENT OF JUSTICE</u></b>			
Bulletproof Vest Partnership Program	16.607		3,654
Local Law Enforcement Block Grants Program	16.592		121
<i>Passed Through Ohio Department of Youth Services</i>			
Juvenile Accountability Incentive Block Grants	16.523	2001-JB-010-A046	1,414
Juvenile Accountability Incentive Block Grants	16.523	2002-JB-007-A046	17,287
Total Juvenile Accountability Incentive Block Grants			<b>18,701</b>
<i>Passed Through Ohio Office of Criminal Justice Services</i>			
School Resource Officer	16.540	2002-DG-B01-7340	34,696
Violence Against Women Formula Grants	16.588	2001-WF-VA2-8110	18,432
Violence Against Women Formula Grants	16.588	2002-WF-VA2-8110	49,099
Total Violence Against Women Formula Grants			<b>67,531</b>
<b>Total - U.S. Department of Justice</b>			<b>124,703</b>
<b><u>UNITED STATES DEPARTMENT OF TRANSPORTATION</u></b>			
Airport Improvement Program	20.106		263,724
<i>Passed Through Ohio Department of Transportation</i>			
Federal Transit Formula Grants	20.507	RPT-4051-022-031	304,411
Formula Grants for Other Than Urbanized Areas	20.509	RPT-4051-022-033	20,987
<b>Total - U.S. Department of Transportation</b>			<b>589,122</b>
<b><u>UNITED STATES FEDERAL EMERGENCY MANAGEMENT AGENCY</u></b>			
Assistance to Firefighters Grant Program	83.554		80,811
<b>Total - U.S. Federal Emergency Management Agency</b>			<b>80,811</b>
<b><u>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
<i>Passed Through Ohio Department of Aging</i>			
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	N/A	63,804
Special Programs for the Aging - Title III, Part E Grants for Supportive Services and Senior Centers	93.044	N/A	5,139
Total Special Programs for the Aging - Title III Grants for Supportive Services and Senior Centers			<b>68,943</b>
<b>Total - U.S. Department of Health and Human Services</b>			<b>68,943</b>
<b>TOTAL FEDERAL AWARDS EXPENDITURES</b>			<b>\$1,903,974</b>

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE 2 – COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS**

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD but are not included as disbursements on the Schedule.

These loans are collateralized by liens placed on personal property. At December 31, 2003, the gross amount of loans outstanding under this program was \$814,367, including \$75,834 of delinquent amounts due.

**NOTE 3 – MATCHING REQUIREMENTS**

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE 4 – PASS THROUGH ENTITY NUMBERS**

The Ohio Department of Aging does not provide pass through entity numbers.



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Marion  
Marion County  
233 West Center Street  
Marion, Ohio 43301

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marion, Marion County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 25, 2004, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 34. The City did not present Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. 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.

#### Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the City's management in a separate letter dated October 25, 2004.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the City's management in a separate letter dated October 25, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

October 25, 2004



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City of Marion  
Marion County  
233 West Center Street  
Marion, Ohio 43301

To the City Council:

#### Compliance

We have audited the compliance of the City of Marion, Marion County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

#### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

October 25, 2004



**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under §.510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	CFDA #20.507 – Federal Transit Formula Grants  CFDA #14.228 – Community Development Block Grant – State's Program
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**CITY OF MARION**

**MARION COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 7, 2004**