



**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, 2004, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the General Fund and Street Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2005, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule 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 federal awards expenditure schedule 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

November 10, 2005

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$4,893,119	\$6,871,997	\$11,765,116
Petty Cash	1,180	780	1,960
Cash and Cash Equivalents with Fiscal Agent	288	0	288
Accounts Receivable	231,804	2,598,097	2,829,901
Due From Other Governments	2,756,014	7,476	2,763,490
Accrued Interest Receivable	256	0	256
Municipal Income Taxes Receivable	2,691,529	0	2,691,529
Internal Balances	29,642	(29,642)	0
Prepaid Items	168,935	80,754	249,689
Materials and Supplies Inventory	162,648	54,079	216,727
Payment in Lieu of Taxes Receivable	298,435	0	298,435
Property Taxes Receivable	1,585,499	0	1,585,499
Notes Receivable	1,229,823	0	1,229,823
Special Assessments Receivable	36,066	0	36,066
Nondepreciable Capital Assets	8,251,905	25,046,220	33,298,125
Depreciable Capital Assets	25,741,530	21,337,403	47,078,933
 Total Assets	 48,078,673	 55,967,164	 104,045,837
 <u>Liabilities</u>			
Accrued Wages Payable	223,315	46,465	269,780
Accounts Payable	1,236,611	154,325	1,390,936
Contracts Payable	148,146	0	148,146
Due to Other Governments	637,902	61,975	699,877
Matured Interest Payable	288	0	288
Accrued Interest Payable	47,021	0	47,021
Notes Payable	1,780,000	2,322,000	4,102,000
Deferred Revenue	962,451	14,900	977,351
Long-Term Liabilities			0
Due Within One Year	282,736	1,928,890	2,211,626
Due in More Than One Year	7,215,592	37,169,299	44,384,891
 Total Liabilities	 12,534,062	 41,697,854	 54,231,916
 <u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	29,816,593	10,458,375	40,274,968
Restricted for			
Debt Service	436,477	0	436,477
Other Purposes	3,596,838	0	3,596,838
Unrestricted	1,694,703	3,810,935	5,505,638
 Total Net Assets	 \$35,544,611	 \$14,269,310	 \$49,813,921

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities</u>				
Security of Persons and Property	\$12,347,085	\$497,527	\$132,342	\$0
Public Health	1,057,747	203,158	395,454	0
Leisure Time Activities	1,204,147	85,528	101,641	0
Community Environment	950,850	10,901	1,117,899	0
Transportation	5,324,767	746,359	1,378,999	1,120,086
General Government	7,432,531	854,087	132,261	0
Interest and Fiscal Charges	400,100	0	0	0
Total Governmental Activities	28,717,227	2,397,560	3,258,596	1,120,086
<u>Business-Type Activities</u>				
Sewer	3,912,213	5,284,383	0	341,439
Storm Sewer	1,489,641	1,229,631	0	0
Sanitation	2,083,863	2,490,913	0	24,424
Other Enterprise	1,066,719	153,678	641,438	0
Total Business-Type Activities	8,552,436	9,158,605	641,438	365,863
Total	\$37,269,663	\$11,556,165	\$3,900,034	\$1,485,949

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
 Other

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year

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
(\$11,717,216)	\$0	(\$11,717,216)
(459,135)	0	(459,135)
(1,016,978)	0	(1,016,978)
177,950	0	177,950
(2,079,323)	0	(2,079,323)
(6,446,183)	0	(6,446,183)
(400,100)	0	(400,100)
<u>(21,940,985)</u>	<u>0</u>	<u>(21,940,985)</u>
0	1,713,609	1,713,609
0	(260,010)	(260,010)
0	431,474	431,474
<u>0</u>	<u>(271,603)</u>	<u>(271,603)</u>
<u>0</u>	<u>1,613,470</u>	<u>1,613,470</u>
<u>(\$21,940,985)</u>	<u>\$1,613,470</u>	<u>(\$20,327,515)</u>
13,056,411	0	13,056,411
1,410,955	0	1,410,955
2,209	0	2,209
337,018	0	337,018
297,931	0	297,931
164,048	0	164,048
2,037,798	0	2,037,798
199,337	0	199,337
98,103	0	98,103
<u>17,603,810</u>	<u>0</u>	<u>17,603,810</u>
<u>(94,603)</u>	<u>94,603</u>	<u>0</u>
(4,431,778)	1,708,073	(2,723,705)
<u>39,976,389</u>	<u>12,561,237</u>	<u>52,537,626</u>
<u><u>\$35,544,611</u></u>	<u><u>\$14,269,310</u></u>	<u><u>\$49,813,921</u></u>

**CITY OF MARION
MARION COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Street	Other Governmental	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,337,513	\$700,038	\$1,727,704	\$4,765,255
Petty Cash	1,030	25	125	1,180
Cash and Cash Equivalents with Fiscal Agent	0	0	288	288
Accounts Receivable	226,545	0	1,999	228,544
Due From Other Governments	988,096	606,130	1,161,788	2,756,014
Accrued Interest Receivable	256	0	0	256
Municipal Income Taxes Receivable	2,385,477	232,907	73,145	2,691,529
Interfund Receivable	98,964	0	4,975	103,939
Prepaid Items	137,051	16,178	11,390	164,619
Materials and Supplies Inventory	23,680	0	4,913	28,593
Payment in Lieu of Taxes	0	0	298,435	298,435
Property Taxes Receivable	1,345,193	0	240,306	1,585,499
Notes Receivable	0	0	1,229,823	1,229,823
Special Assessments Receivable	20,084	0	15,982	36,066
Total Assets	7,563,889	1,555,278	4,770,873	13,890,040
Liabilities				
Accrued Wages Payable	175,180	17,199	20,021	212,400
Accounts Payable	343,467	560,955	236,450	1,140,872
Contracts Payable	0	0	148,146	148,146
Due to Other Governments	453,004	23,390	157,268	633,662
Matured Interest Payable	0	0	288	288
Interfund Payable	16,025	30,672	159,604	206,301
Deferred Revenue	2,733,780	505,023	1,516,039	4,754,842
Total Liabilities	3,721,456	1,137,239	2,237,816	7,096,511
Fund Balance				
Reserved for Encumbrances	115,494	48,072	210,378	373,944
Reserved for Notes Receivable	0	0	1,206,668	1,206,668
Unreserved, Reported in				
General Fund	3,726,939	0	0	3,726,939
Special Revenue Funds	0	369,967	795,278	1,165,245
Debt Service	0	0	552,433	552,433
Capital Projects Funds (Deficit)	0	0	(231,700)	(231,700)
Total Fund Balance	3,842,433	418,039	2,533,057	6,793,529
Total Liabilities and Fund Balance	\$7,563,889	\$1,555,278	\$4,770,873	\$13,890,040

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Total Governmental Fund Balance		\$6,793,529
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.		31,547,793
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds:		
Due from Other Governments	2,325,251	
Municipal Income Taxes Receivable	1,273,471	
Property Taxes Receivable	157,603	
Special Assessments Receivable	<u>36,066</u>	
		3,792,391
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued Interest Payable	(47,021)	
TIF Loans Payable	(1,575,637)	
OPWC Loans Payable	(112,177)	
Conventional Bank Loan	(709,028)	
General Obligation Bonds Payable	(1,501,000)	
Compensated Absences Payable	<u>(3,600,486)</u>	
		(7,545,349)
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.		<u>956,247</u>
Net Assets of Governmental Activities		<u><u>\$35,544,611</u></u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Street</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
Local Taxes	\$12,536,746	\$1,194,982	\$565,695	\$14,297,423
Payments in Lieu of Taxes	0	0	297,931	297,931
Special Assessments	25,394	0	32,458	57,852
Charges for Services	733,071	4,762	156,221	894,054
Fees, Licenses, and Permits	997,136	11,000	130,236	1,138,372
Intergovernmental	1,980,561	1,226,727	2,544,487	5,751,775
Interest	166,106	3,636	35,251	204,993
Other	233,277	15,041	192,713	441,031
Total Revenues	16,672,291	2,456,148	3,954,992	23,083,431
<u>Expenditures</u>				
Current:				
Security of Persons and Property	10,929,283	0	665,926	11,595,209
Public Health	0	0	1,057,747	1,057,747
Leisure Time Activities	561,899	0	640,894	1,202,793
Community Environment	343,256	0	444,404	787,660
Transportation	332,835	2,324,950	1,860,207	4,517,992
General Government	3,487,122	0	120,729	3,607,851
Capital Outlay	724,557	9,131	206,757	940,445
Debt Service	21,861	0	360,788	382,649
Total Expenditures	16,400,813	2,334,081	5,357,452	24,092,346
Excess of Revenues Over (Under) Expenditures	271,478	122,067	(1,402,460)	(1,008,915)
<u>Other Financing Sources (Uses)</u>				
Proceeds of Loans	723,975	0	0	723,975
Other Financing Uses	0	(13,200)	(151,309)	(164,509)
Transfers In	0	0	1,126,412	1,126,412
Transfers Out	(1,197,699)	0	(23,315)	(1,221,014)
Total Other Financing Sources (Uses)	(473,724)	(13,200)	951,788	464,864
Change in Fund Balance	(202,246)	108,867	(450,672)	(544,051)
Fund Balance Beginning of Year	4,044,679	309,172	2,983,729	7,337,580
Fund Balance End of Year	\$3,842,433	\$418,039	\$2,533,057	\$6,793,529

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Change in Fund Balance - Total Governmental Funds		(\$544,051)
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	2,070,051	
Capital Outlay - Depreciable capital assets	1,250,135	
Depreciation	<u>(5,376,755)</u>	(2,056,569)
The cost of 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		(1,823,777)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.		
Local Taxes	509,170	
Special Assessments	(57,852)	
Intergovernmental	664,725	
Other	<u>(365,451)</u>	750,592
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	141,038	
OPWC Loans	6,410	
Conventional Bank Loan	14,947	
General Obligation Bonds	<u>62,000</u>	224,395
Proceeds of a conventional bank loan are receipts in the governmental funds, but the outstanding loan increases liabilities on the statement of net assets.		
		(723,975)
Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.		
		7,401
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	<u>(265,794)</u>	<u>(265,794)</u>
Change in Net Assets of Governmental Activities		(\$4,431,778)

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$1,138,948	\$1,051,154	\$1,051,154	\$0
Income Taxes	10,852,285	10,796,601	10,703,143	(93,458)
Other Local Taxes	2,070	145,448	145,070	(378)
Intergovernmental	1,931,801	2,007,413	1,980,371	(27,042)
Charges for Services	305,412	672,129	548,164	(123,965)
Fines and Forfeitures	1,228,290	1,015,174	1,008,232	(6,942)
Special Assessments	5,000	25,394	25,394	0
Interest	225,000	225,000	168,732	(56,268)
Miscellaneous	11,500	40,015	40,111	96
Total Revenues	<u>15,700,306</u>	<u>15,978,328</u>	<u>15,670,371</u>	<u>(307,957)</u>
Expenditures:				
Current:				
General Government	3,392,715	3,655,596	3,414,489	241,107
Security of Persons and Property	11,633,883	12,528,966	11,915,939	613,027
Leisure Time Activities	611,964	623,356	572,232	51,124
Community Environment	358,000	343,256	343,256	0
Transportation	344,668	359,754	327,216	32,538
Other	1,400	1,400	1,160	240
Total Expenditures	<u>16,342,630</u>	<u>17,512,328</u>	<u>16,574,292</u>	<u>938,036</u>
Excess of Revenues Over (Under) Expenditures	<u>(642,324)</u>	<u>(1,534,000)</u>	<u>(903,921)</u>	<u>630,079</u>
Other Financing Sources (Uses):				
Other Financing Sources	212,964	212,964	201,296	(11,668)
Other Financing Uses	(100,000)	(106,839)	(103,745)	3,094
Proceeds of Loans	730,000	723,975	723,975	0
Sale of Fixed Assets	7,500	1,000	1,000	0
Advances-In	0	0	431,824	431,824
Advances-Out	0	0	(339,218)	(339,218)
Operating Transfers-Out	(1,342,577)	(1,243,793)	(1,197,699)	46,094
Total Other Financing Sources (Uses)	<u>(492,113)</u>	<u>(412,693)</u>	<u>(282,567)</u>	<u>130,126</u>
Net Change in Fund Balance	(1,134,437)	(1,946,693)	(1,186,488)	760,205
Fund Balances at				
Beginning of Year	2,656,764	2,656,764	2,656,764	0
Prior Year Encumbrances Appropriated	867,572	867,572	867,572	0
Fund Balances at End of Year	<u>\$2,389,899</u>	<u>\$1,577,643</u>	<u>\$2,337,848</u>	<u>\$760,205</u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Income Taxes	\$1,028,914	\$1,028,914	\$1,005,530	(\$23,384)
Permissive MVL	175,338	175,338	175,338	0
Intergovernmental	1,161,000	1,161,000	1,189,997	28,997
Charges for Services	4,000	4,000	4,762	762
Fees, Licenses, and Permits	22,000	22,000	11,000	(11,000)
Interest	2,000	2,000	3,636	1,636
Donations	0	11,501	11,501	0
Miscellaneous	1,000	500	1,012	512
Total Revenues	<u>2,394,252</u>	<u>2,405,253</u>	<u>2,402,776</u>	<u>(2,477)</u>
Expenditures:				
Current:				
Transportation	2,292,201	2,528,091	1,949,568	578,523
Total Expenditures	<u>2,292,201</u>	<u>2,528,091</u>	<u>1,949,568</u>	<u>578,523</u>
Excess of Revenues Over (Under) Expenditures	<u>102,051</u>	<u>(122,838)</u>	<u>453,208</u>	<u>576,046</u>
Other Financing Sources (Uses):				
Other Financing Sources	2,500	2,500	2,767	267
Other Financing Uses	0	0	(2,600)	(2,600)
Sale of Capital Assets	1,000	1,000	0	(1,000)
Total Other Financing Sources (Uses)	<u>3,500</u>	<u>3,500</u>	<u>167</u>	<u>(3,333)</u>
Net Change in Fund Balance	105,551	(119,338)	453,375	572,713
Fund Balances at Beginning of Year	100,131	100,131	100,131	0
Prior Year Encumbrances Appropriated	37,457	37,457	37,457	0
Fund Balances at End of Year	<u>\$243,139</u>	<u>\$18,250</u>	<u>\$590,963</u>	<u>\$572,713</u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

	Sewer	Sanitation	Storm Sewer	Other Enterprise	Total Enterprise Funds	Internal Service Funds
<u>Assets</u>						
<u>Current Assets</u>						
Equity in Pooled Cash and Cash Equivalents	\$2,801,772	\$443,935	\$3,554,062	\$42,990	\$6,842,759	\$157,103
Petty Cash	50	25	0	305	380	400
Accounts Receivable	1,371,754	822,524	402,262	1,557	2,598,097	3,260
Due From Other Governments	1,556	2,708	0	3,212	7,476	0
Interfund Receivable	299	0	0	797	1,096	68,732
Prepaid Items	57,114	11,396	2,392	9,158	80,060	5,010
Materials and Supplies Inventory	53,352	0	0	0	53,352	134,783
Total Current Assets	4,285,897	1,280,588	3,958,716	58,019	9,583,220	369,288
<u>Non-Current Assets</u>						
Nondepreciable Capital Assets	24,969,333	40,886	0	36,000	25,046,219	0
Depreciable Capital Assets, Net	13,198,360	799,467	6,932,053	396,420	21,326,300	2,561,205
Total Non-Current Assets	38,167,693	840,353	6,932,053	432,420	46,372,519	2,561,205
Total Assets	42,453,590	2,120,941	10,890,769	490,439	55,955,739	2,930,493
<u>Liabilities</u>						
<u>Current Liabilities</u>						
Accrued Wages Payable	25,760	11,329	0	7,317	44,406	12,973
Accounts Payable	91,938	56,555	3,996	1,669	154,158	95,906
Due to Other Governments	33,371	15,004	0	11,001	59,376	5,481
Interfund Payable	0	11,422	0	9,889	21,311	0
Notes Payable	1,225,000	0	1,097,000	0	2,322,000	1,780,000
Capital Lease Payable	0	72,636	0	0	72,636	0
Loans Payable	1,433,355	129,130	13,769	0	1,576,254	0
Bonds Payable	100,000	0	180,000	0	280,000	0
Deferred Revenue	0	14,900	0	0	14,900	0
Total Current Liabilities	2,909,424	310,976	1,294,765	29,876	4,545,041	1,894,360
<u>Non-Current Liabilities</u>						
Compensated Absences Payable	288,371	108,247	0	84,571	481,189	53,710
Capital Lease Payable	0	274,132	0	0	274,132	0
Closure/Postclosure Payable	0	2,691,753	0	0	2,691,753	0
Loans Payable	25,517,502	1,648,649	231,074	0	27,397,225	0
Bonds Payable	2,235,000	0	4,090,000	0	6,325,000	0
Total Non-Current Liabilities	28,040,873	4,722,781	4,321,074	84,571	37,169,299	53,710
Total Liabilities	30,950,297	5,033,757	5,615,839	114,447	41,714,340	1,948,070
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	9,632,704	15,700	554,708	185,469	10,388,581	972,319
Unrestricted (Deficit)	1,870,589	(2,928,516)	4,720,222	190,523	3,852,818	10,104
Total Net Assets	\$11,503,293	(\$2,912,816)	\$5,274,930	\$375,992	\$14,241,399	\$982,423

See Accompanying Notes to the Basic Financial Statements

CITY OF MARION
MARION COUNTY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Sewer	Sanitation	Storm Sewer	Other Enterprise	Total Enterprise Funds	Internal Service Funds
<u>Operating Revenues</u>						
Charges for Services	\$5,277,672	\$2,469,704	\$1,229,631	\$145,406	\$9,122,413	\$779,682
Other	6,711	21,209	0	8,272	36,192	204,178
Total Operating Revenues	<u>5,284,383</u>	<u>2,490,913</u>	<u>1,229,631</u>	<u>153,678</u>	<u>9,158,605</u>	<u>983,860</u>
<u>Operating Expenses</u>						
Personal Services	1,591,904	899,353	272,705	698,283	3,462,245	369,899
Travel and Transportation	1,693	0	0	761	2,454	74
Contractual Services	549,293	796,119	205,164	130,660	1,681,236	145,207
Materials and Supplies	370,603	52,412	38,073	64,468	525,556	310,579
Depreciation	831,554	116,043	178,175	96,303	1,222,075	68,557
Other	6,665	91,912	6,043	12,478	117,098	3,970
Closure/Postclosure Expense	0	19,195	0	0	19,195	0
Total Operating Expenses	<u>3,351,712</u>	<u>1,975,034</u>	<u>700,160</u>	<u>1,002,953</u>	<u>7,029,859</u>	<u>898,286</u>
Operating Income (Loss)	<u>1,932,671</u>	<u>515,879</u>	<u>529,471</u>	<u>(849,275)</u>	<u>2,128,746</u>	<u>85,574</u>
<u>Non-Operating Revenues (Expenses)</u>						
Intergovernmental revenue	341,439	24,424	0	641,438	1,007,301	120
Other Non-Operating Expense	(34,733)	0	(562,991)	(67,231)	(664,955)	0
Interest Expense	(575,917)	(87,620)	(226,490)	0	(890,027)	0
Total Non-Operating Revenues (Expenses)	<u>(269,211)</u>	<u>(63,196)</u>	<u>(789,481)</u>	<u>574,207</u>	<u>(547,681)</u>	<u>120</u>
Income (Loss) Before and Transfers	1,663,460	452,683	(260,010)	(275,068)	1,581,065	85,694
Transfers In	0	0	0	94,603	94,603	0
Change in Net Assets	1,663,460	452,683	(260,010)	(180,465)	1,675,668	85,694
Net Assets(Deficit) Beginning of Year	<u>9,839,833</u>	<u>(3,365,499)</u>	<u>5,534,940</u>	<u>556,457</u>	<u>12,565,731</u>	<u>896,729</u>
Net Assets (Deficit) End of Year	<u><u>\$11,503,293</u></u>	<u><u>(\$2,912,816)</u></u>	<u><u>\$5,274,930</u></u>	<u><u>\$375,992</u></u>	<u><u>\$14,241,399</u></u>	<u><u>\$982,423</u></u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Sewer</u>	<u>Storm Sewer</u>	<u>Sanitation</u>	<u>Other Enterprise</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activity Internal Service Funds</u>
Increases (Decreases) in Cash and Cash Equivalents						
<u>Cash Flows from Operating Activities</u>						
Cash Received from Customers	\$5,256,736	\$1,189,150	\$2,310,976	\$145,321	\$8,902,183	\$766,235
Cash Payments for Personal Services	(1,641,763)	(308,253)	(942,237)	(638,529)	(3,530,782)	(389,038)
Cash Payments for Contractual Services	(1,035,269)	(186,028)	(943,694)	(124,998)	(2,289,989)	(91,642)
Cash Payments to Vendors	(397,272)	(36,634)	(46,027)	(65,961)	(545,894)	(391,839)
Cash Payments for Travel Transportation	(1,693)	0	0	(779)	(2,472)	(99)
Cash Received from Other Revenues	3,089	0	25,208	7,646	35,943	216,048
Cash Payments for Other Expenses	0	0	0	0	0	120
Net Cash Provided by (Used for) Operating Activities	<u>2,183,828</u>	<u>658,235</u>	<u>404,226</u>	<u>(677,300)</u>	<u>2,568,989</u>	<u>109,785</u>
<u>Cash Flows from Noncapital Financing Activities</u>						
Cash Received from Operating Grants	0	0	0	637,554	637,554	0
Cash Received from Transfers	0	0	0	94,603	94,603	0
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>0</u>	<u>0</u>	<u>0</u>	<u>732,157</u>	<u>732,157</u>	<u>0</u>
<u>Cash Flows from Capital and Related Financing Activities</u>						
Principal Paid on Loans	(1,410,518)	(12,307)	(159,113)	0	(1,581,938)	0
Principal Paid on Bonds	(95,000)	(175,000)	0	0	(270,000)	0
Interest Paid on Debt	(588,209)	(226,490)	(87,620)	0	(902,319)	0
Proceeds of Loans	254,846	0	0	0	254,846	0
Proceeds of Notes	1,233,660	1,104,755	0	0	2,338,415	0
Sale of Capital Assets	15,795	0	0	0	15,795	0
Pass Thru Payments	(25,733)	0	0	0	(25,733)	0
Interest Received	12,293	0	0	0	12,293	0
Cash Received from Capital Grants	247,400	0	0	0	247,400	0
Acquisition of Capital Assets	(1,529,937)	(585,075)	(1,590)	(109,009)	(2,225,611)	(480,990)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(1,885,403)</u>	<u>105,883</u>	<u>(248,323)</u>	<u>(109,009)</u>	<u>(2,136,852)</u>	<u>(480,990)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	298,425	764,118	155,903	(54,152)	1,164,294	(371,205)
Cash and Cash Equivalents Beginning of Year	<u>2,503,397</u>	<u>2,789,944</u>	<u>288,057</u>	<u>97,447</u>	<u>5,678,845</u>	<u>528,708</u>
Cash and Cash Equivalents End of Year	<u>\$2,801,822</u>	<u>\$3,554,062</u>	<u>\$443,960</u>	<u>\$43,295</u>	<u>\$6,843,139</u>	<u>\$157,503</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>						
Operating Income (Loss)	\$1,932,671	\$529,471	\$515,879	(\$849,275)	2,128,746	\$85,574
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities</u>						
Depreciation	831,554	178,175	116,043	96,303	1,222,075	68,557
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable	(76,877)	(38,482)	(178,373)	51,029	(242,703)	(3,042)
(Increase) Decrease in Due from Other Governments	379	0	(2,708)	33,832	31,503	0
(Increase) Decrease in Interfund Receivable	1,325	0	0	(797)	528	1,465
(Increase) Decrease in Prepaid Items	21,068	323	3,510	6,329	31,230	790
(Increase) Decrease in Materials and Supplies Inventory	(8,420)	0	0	0	(8,420)	(6,282)
Increase (Decrease) in Accrued Wages Payable	10,704	0	3,202	3,804	17,710	1,909
Increase (Decrease) in Accounts Payable	(453,910)	(8,704)	(2,204)	(2,126)	(466,944)	(18,176)
Increase (Decrease) in Interfund Payable	(5,656)	(2,548)	(7,452)	882	(14,774)	0
Increase (Decrease) in Deferred Revenue/Due to other governments	(73,629)	0	(25,092)	(21,242)	(119,963)	(14,122)
Increase (Decrease) in Compensated Absences Payable	4,619	0	(18,579)	3,961	(9,999)	(6,888)
Net Cash Provided by (Used for) Operating Activities	<u>\$2,183,828</u>	<u>\$658,235</u>	<u>\$404,226</u>	<u>(\$677,300)</u>	<u>\$2,568,989</u>	<u>\$109,785</u>

Non-Cash Transactions

During 2004, the City's sanitation fund entered into a lease agreement for sanitation packers. Capital assets, in the amount of \$382,190 have been capitalized in the Sanitation enterprise fund

See Accompanying Notes to Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2004**

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$144,853
Accounts Receivable	4,329
Total Assets	<u>\$149,182</u>
 <u>Liabilities</u>	
Other Payables	114
Due to Other Funds	15,124
Due to Other Governments	93,378
Undistributed Money	40,566
Total Liabilities	<u>\$149,182</u>

See Accompanying Notes to Basic Financial Statements

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**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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. 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 20)

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 governmental and business-type activities 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, 2004
(Continued)**

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:

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds (Continued)

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.

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 2004. 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.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 changes in 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.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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.

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, 2004, were levied to finance 2005 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 program level.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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.

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, 2004, the City had a balance of \$288.

The City's investments in nonnegotiable certificates of deposit are reported at cost. Federal Home Loan Bonds and Mortgage Corporation Notes are recorded at fair value. 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, 2004.

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 2004 was \$166,106, which includes \$129,395 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.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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 expensed/expensed when used. Inventory consists of expendable supplies held for consumption.

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:

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets (Continued)

<u>Classification</u>	<u>Useful 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 government-wide statements of net assets are those between governmental and business-type activities. These amounts are presented as "Internal Balances."

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.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Accrued Liabilities and Long-Term Obligations (Continued)

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 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.

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.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The Senior Citizens III-E, Violence Against Women, Health, WIC, School Watch, and ASAP special revenue funds had deficit fund balances, in the amount of \$312, \$1,509, \$4,940, \$8,892, \$2,065, \$1,493, respectively. The deficit in the Senior Citizens III-E, Violence Against Women, and School Watch special revenue funds resulted from reporting accrued expenditures. The deficits will be alleviated when additional revenues are received. The deficit in the Health, WIC, and ASAP special revenue funds resulted from advances from the General Fund. The deficits will be alleviated when revenues are received to repay the advances.

Busby Park, Airport Improvement, and Street Improvement capital projects funds had deficit fund balances, in the amount of \$7,995, \$135,310, and \$175,000, respectively. These deficits resulted from reporting accrued expenditures.

The Sanitation enterprise fund has deficit net assets in the amount of \$2,912,816 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.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

4. 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 Statements 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:

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

	General Fund	Street Fund
GAAP Basis	(\$202,246)	\$108,867
<u>Increases (Decreases) Due To:</u>		
<u>Revenue Accruals:</u>		
Accrued in 2003, Received in Cash 2004	1,472,549	290,201
Accrued in 2004, Not Yet Received in Cash	(2,072,623)	(204,061)
<u>Expenditure Accruals:</u>		
Accrued in 2003, Paid in Cash 2004	(1,098,264)	(174,613)
Accrued in 2004, Not Yet Paid in Cash	772,195	476,685
<u>Cash Adjustments:</u>		
Prepaid Items	28,208	4,368
Materials and Supplies Inventory	23,680	0
Advances In	431,824	0
Advances Out	(339,218)	0
Encumbrances Outstanding at Year End (Budget Basis)	(202,673)	(48,072)
Petty Cash to Bank	80	0
Budget Basis	(\$1,186,488)	\$453,375

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

5. 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 book entry zero-coupon United States Treasury security that is a direct obligation of 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 or its political subdivisions provided that such political subdivisions are located wholly or partly within the City;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the City lends securities and the eligible institution agrees to exchange similar securities, or cash, equal value for equal value;
9. Up to twenty-five percent of the City's average portfolio is either of the following:
 - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding five hundred million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed 10 percent of the value of the outstanding commercial paper of the issuing corporation, and which mature within two hundred seventy days after the purchase;
 - b. bankers acceptances eligible for purchase by the federal reserve system and which mature within one hundred eighty days after purchase;
10. Up to 15 percent of the City's average portfolio in notes issued by the United States Corporations or by depository institutions that are doing business under authority granted by the United States provided that the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase;
11. No load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper; and
12. Up to 1 percent of the City's average daily portfolio in debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government

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 \$17,908 in undeposited cash on hand, in the amount of \$15,948, and "Petty Cash" in the amount of \$1,960.

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."

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

At year-end, the carrying amount of the City's deposits was \$6,786,870 and the bank balance was \$6,938,329. Of the bank balance \$700,000 was covered by federal depository insurance. \$6,238,329 was uninsured and uncollateralized. Although all State 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.

	Category 2	Fair Value
Federal Home Loan Bank Bonds	\$1,742,347	\$1,742,347
Federal Home Loan Mortgage Corporation Notes	2,099,600	2,099,600
Municipal Bonds	501,000	501,000
	\$4,342,947	4,342,947
STAR Ohio		764,492
Total Investments		\$5,107,439

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:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$11,912,217	\$0
Cash on Hand	(17,908)	0
<u>Investments:</u>		
Municipal Bonds	(501,000)	501,000
Federal Home Loan Bank Bonds	(1,742,347)	1,742,347
Federal Home Loan Mortgage Corporation Notes	(2,099,600)	2,099,600
STAR Ohio	(764,492)	764,492
GASB Statement 3	\$6,786,870	\$5,107,439

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2004, The City had 396,003 of negotiable certificates of deposit held by financial institutions that were not domiciled (ie had a presence) in Ohio. As a result, those investments were held by ineligible public depositories and are therefore unallowable investments.

6. RECEIVABLES

Receivables at December 31, 2004, 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 an agreement with Marion Senior Housing Partnership to pay the City the amount necessary to retire taxable housing bonds issues related to the Harding Center Project and low interest loans for development projects granted to eligible City businesses under the Federal Community 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 \$23,718, was repaid during the year. Loans outstanding at December 31, 2004, were \$1,229,823. Loans receivable, in the amount of \$1,206,668, 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	\$1,434,754	\$423,262	\$965,524	\$1,557	\$2,825,097
Less: Allowance for Uncollectible Accounts	<u>(63,000)</u>	<u>(21,000)</u>	<u>(143,000)</u>	<u>0</u>	<u>(227,000)</u>
Net Accounts Receivable	<u>\$1,371,754</u>	<u>\$402,262</u>	<u>\$822,524</u>	<u>\$1,557</u>	<u>\$2,598,097</u>

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amount</u>
Major Funds	
General Fund	
Homestead and Rollback	\$ 74,718
Inheritance Tax	76,645
Local Government	695,851
Local Government Revenue Assistance	132,043
Court Cost Reimbursement	<u>8,839</u>
Total General Fund	<u>988,096</u>
Street Fund	
Gasoline Tax	476,773
Motor Vehicle License Tax	<u>129,357</u>
Total Street Fund	<u>606,130</u>
Total Major Funds	<u>1,594,226</u>
Nonmajor Funds	
Senior Citizens III-B	
Grants	<u>3,148</u>
Total Senior Citizens III-B	<u>3,148</u>

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

6. RECEIVABLES (Continued)

State Highway Fund	
Gasoline Tax	38,658
Motor Vehicle License Tax	<u>10,488</u>
Total State Highway Fund	<u>49,146</u>
Community Distress Fund	
Grants	<u>281,263</u>
Total Community Distress Fund	<u>281,263</u>
Health Fund	<u>9,410</u>
FEMA	
Grants	<u>30,267</u>
Total FEMA	<u>30,267</u>
ASAP Program Fund	
Grants	<u>545</u>
Total ASAP Program Fund	<u>545</u>
Enforcement and Education Fund	
Charges for Services	<u>800</u>
Total Enforcement and Education	<u>800</u>
Police and Fire Pension Fund	
Homestead and Rollback	<u>14,726</u>
Total Police and Fire Pension Fund	<u>14,726</u>
Indigent Alcohol Driver Fund	
Grants	<u>7,600</u>
Total Indigent Alcohol Drive Fund	<u>7,600</u>
CHIP Grant Fund	
Grants	<u>517,550</u>
Total CHIP Grant Fund	<u>517,550</u>
Formula Grant Fund	
Grants	<u>199,534</u>
Total Formula Grant Fund	<u>199,534</u>
EDI Grant Fund	
Grants	<u>25,094</u>
Total EDI Grant Fund	<u>25,094</u>
Airport Improvement Fund	
Grants	<u>22,704</u>
Total Airport Improvement Fund	<u>22,704</u>
Total Nonmajor Governmental Funds	<u>1,161,788</u>
Total Governmental Activities	<u>\$2,756,014</u>
Business-Type Activities	
Sewer Fund	
Charges for Services	<u>1,556</u>
Total Sewer Fund	<u>1,556</u>
Sanitation Fund	
Charges for Services	<u>2,708</u>
Total Sanitation Fund	<u>2,708</u>
Other Enterprise Funds	
Charges for Services	<u>3,212</u>
Total Other Enterprise Funds	<u>3,212</u>
Total Business Type Activities	<u>\$7,476</u>

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

7. 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.

8. 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 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, 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 2004 represent the collection of 2003 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2002, were levied after October 1, 2003, 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.

Tangible personal property tax revenues received in 2004 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 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, 2004, 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 intended to finance 2004 operations. 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, 2004, per taxing district, per \$1,000 of assessed valuation are as follows:

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

8. PROPERTY TAXES (Continued)

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 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property	\$ 342,139,110
Public Utility Property	19,242,730
Tangible Personal Property	<u>44,654,226</u>
Total Assessed Value	<u>\$ 406,036,066</u>

9. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
Governmental Activities:				
Nondepreciable Capital Assets				
Land and Land Improvements	\$ 6,466,766	\$ 706,117	\$0	\$ 7,172,883
Construction in Progress	1,976,641	1,363,935	(2,261,554)	1,079,022
Total Nondepreciable Capital Assets	<u>8,443,407</u>	<u>2,070,052</u>	<u>(2,261,554)</u>	<u>8,251,905</u>
Depreciable Capital Assets				
Land Improvements and Streets	33,429,009	1,605,461	0	35,034,470
Buildings, Structures, and Sewers	8,639,687	771,619	(1,791,712)	7,619,594
Machinery and Equipment	2,946,005	189,101	(29,083)	3,106,023
Furniture and Fixtures	265,801	0	(1,665)	264,136
Vehicles	3,234,645	945,508	(30,244)	4,149,909
Total Depreciable Capital Assets	<u>48,515,147</u>	<u>3,511,689</u>	<u>(1,852,704)</u>	<u>50,174,132</u>
Less accumulated Depreciation for				
Land Improvements and Streets	(14,720,089)	(2,275,896)	0	(16,995,985)
Buildings, Structures, and Sewers	(298,820)	(2,585,657)	0	(2,884,477)
Machinery and Equipment	(1,581,173)	(231,042)	11,983	(1,800,232)
Furniture and Fixtures	(197,663)	(13,157)	1,665	(209,155)
Vehicles	(2,287,029)	(271,003)	15,279	(2,542,753)
Total Accumulated Depreciation	<u>(19,084,774)</u>	<u>(5,376,755)</u>	<u>28,927</u>	<u>(24,432,602)</u>
Total Depreciable Capital Assets, Net	<u>29,430,373</u>	<u>(1,865,066)</u>	<u>(1,823,777)</u>	<u>25,741,530</u>
Governmental Activities Capital Assets, Net	<u>\$ 37,873,780</u>	<u>\$204,985</u>	<u>\$ (4,085,331)</u>	<u>\$ 33,993,434</u>

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

9. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property	\$ 632,182
Public Health	8,175
Leisure Time Activities	458,798
Community Environment	0
Transportation	2,190,148
General Government	<u>2,087,452</u>
Total Depreciation Expense – Governmental Activities	<u>\$5,376,755</u>

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$ 325,457	\$0	\$0	\$ 325,457
Construction in Progress	23,222,160	1,498,603	0	24,720,763
Total Nondepreciable Capital Assets	<u>23,547,617</u>	<u>1,498,603</u>	<u>0</u>	<u>25,046,220</u>
Depreciable Capital Assets				
Land Improvements	1,749,606	6,100	0	1,755,706
Buildings, Structures, and Sewers	29,724,922	0	0	29,724,922
Machinery and Equipment	2,093,073	95,359	0	2,188,432
Furniture and Fixtures	67,234	4,425	0	71,659
Vehicles	2,091,996	487,614	(22,688)	2,556,922
Total Depreciable Capital Assets	<u>35,726,831</u>	<u>593,498</u>	<u>(22,688)</u>	<u>36,297,641</u>
Less Accumulated Depreciation for				
Land Improvements	(1,480,953)	(74,160)	0	(1,555,113)
Buildings, Structures, and Sewers	(9,548,089)	(783,830)	0	(10,331,919)
Machinery and Equipment	(1,233,398)	(154,029)	0	(1,387,427)
Furniture and Fixtures	(54,570)	(2,313)	0	(56,883)
Vehicles	(1,424,662)	(212,178)	7,941	(1,628,899)
Total Accumulated Depreciation	<u>(13,741,672)</u>	<u>(1,226,510)</u>	<u>7,941</u>	<u>(14,960,241)</u>
Total Depreciable Capital Assets, Net	<u>21,985,159</u>	<u>(633,012)</u>	<u>(14,747)</u>	<u>21,337,400</u>
Business-Type Activities Capital Assets, Net	<u>\$45,532,776</u>	<u>\$865,591</u>	<u>(\$14,747)</u>	<u>\$46,383,620</u>

10. INTERFUND RECEIVABLES/PAYABLES

At December 31, 2004, the General Fund had an interfund receivable, in the amount of \$98,964, 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 \$4,975, 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 \$299, for services provided to the Sanitation Enterprise Fund.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

10. INTERFUND RECEIVABLES/PAYABLES (Continued)

The Internal Service Funds had an interfund receivable, in the amount of \$68,732, for services provided to other funds. The General Fund, in the amount of \$16,025, the Street Fund, in the amount of \$30,672, Other Governmental Funds, in the amount of \$724, the Sanitation Fund, in the amount of \$11,422 and Other Enterprise Funds, in the amount of \$9,889.

11. 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 2004, 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)	\$42,576,224	\$1,000
Earthquake	500,000	5,000
Electronic Data and Equipment	410,177	500
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	480,700	500
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.

12. 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 Pension 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% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings. The combined plan is a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-6701 or 800-222-7377.

For the year ended December 31, 2004, members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City's contribution rate for pension benefits for 2004 was 9.55%. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contribution for pension obligations for the years ended December 31, 2004, 2003, and 2002 were \$635,803, \$615,086, and \$601,621 respectively; 92 percent has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002. \$48,546 representing the unpaid contribution for 2004 is recorded as a liability within the respective funds.

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

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

Plan members are required to contribute ten percent of their annual covered salary, while employers are required to contribute 11.75% for police officers and 16.25% for firefighters. The City of Marion's contributions to OP&F for the years ended December 31, 2004, 2003 and 2002 were \$868,083, \$849,686, and \$840,475 respectively, or 79% of the required contributions for 2004 and equal to the required contributions for 2003 and 2002.

13. 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. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS 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".

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

A. Ohio Public Employees Retirement System (Continued)

A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for law enforcement and public safety); 4.00 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$122,514. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2003 (the latest information available), was \$10.5 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OPF) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor 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 OPF is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from OPF shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total employer contribution rate for police is 19.5 percent of covered payroll and for firefighters is 24 percent of covered payroll; 7.75 percent was applied to the postemployment health care program during 2004. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

B. Ohio Police and Fire Pension Fund (Continued)

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$59,817 for police and \$75,593 for firefighters. The OPF's total health care expense for the year ended December 31, 2003 (the latest information available), was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OPF participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

14. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are 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.

15. SIGNIFICANT CONTRACTUAL COMMITMENTS

	Contract Amount	Amount Paid As of 12/31/04	Balance
Hissong Excavating	\$59,475	\$21,976	\$37,499
Hunt's Fence, Inc.	74,000	46,458	27,542
Oberlander's Tree and Landscape	90,111	62,732	27,379
SCI, Inc.	472,798	355,210	117,588
Shelly and Sands, Inc.	765,625	0	765,625
Shelly and Sands, Inc.	685,264	93,427	91,837
Underground Utilities, Inc.	1,318,405	1,228,715	89,690
Yager Consultants, Inc.	232,000	146,500	85,500

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

16. NOTES PAYABLE

A summary of the note transactions for the year ended December 31, 2004, is as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
<u>Central Garage Notes:</u>	<u>1/1/04</u>			<u>12/31/04</u>
April 22, 2003 (1.50%)	\$1,780,000	\$0	\$1,780,000	\$0
January 22, 2004 (1.50%)	0	1,780,000	1,780,000	0
October 21, 2004 (2.75%)	0	1,780,000	0	1,780,000
	<u>1,780,000</u>	<u>3,560,000</u>	<u>3,560,000</u>	<u>1,780,000</u>
 <u>Sanitary Sewer Improvements:</u>				
October 21, 2004 (2.75%)	0	1,225,000	0	1,225,000
 <u>Storm Sewer Improvements:</u>				
October 21, 2004 (2.75%)	0	1,097,000	0	1,097,000
Totals	<u>\$1,780,000</u>	<u>\$5,882,000</u>	<u>\$3,560,000</u>	<u>\$4,102,000</u>

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.

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</u>	<u>Interest</u>	<u>Original</u>
	<u>Issue</u>	<u>Rate</u>	<u>Issue</u>
	<u>Date</u>	<u>Rate</u>	<u>Amount</u>
<u>General Obligation Bonds:</u>			
Various Purpose	2001	5.194%	\$ 8,730,000
Harding Centre	1999	5.250%	600,000
 <u>OPWC Loans:</u>			
WWTP Upgrade	2001	0%	1,070,800
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
 <u>OWDA Loans:</u>			
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
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

17. LONG-TERM OBLIGATIONS (Continued)

The City's long-term obligations activity for the year ended December 31, 2004, was as follows:

	Balance	Additions	Reductions	Balance	Due
<u>Governmental Activities</u>	<u>12/31/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/04</u>	<u>Within</u>
					<u>One Year</u>
Taxable Housing Bonds	\$ 523,000	\$ -	\$ 22,000	\$ 501,000	\$ 23,000
Police and Fire Pension Bonds	1,040,000	-	40,000	1,000,000	45,000
ODOT DRIP TIF Loan	1,716,675	-	141,038	1,575,637	147,096
OPWC Loan	118,587	-	6,410	112,177	6,410
Fire Truck Loan	-	723,975	14,947	709,028	61,230
Compensated Absences	<u>3,375,355</u>	<u>225,131</u>	<u>-</u>	<u>3,600,486</u>	<u>-</u>
Total Governmental Activities	<u>\$ 6,773,617</u>	<u>\$ 949,106</u>	<u>\$ 224,935</u>	<u>\$ 7,498,328</u>	<u>\$ 282,736</u>
<u>Business-Type Activities</u>					
OWDA Loans	\$ 28,340,508	\$218,045	\$ 1,428,090	\$27,130,462	\$1,456,366
OPWC Loans	1,924,642	36,801	118,426	1,843,017	119,888
Sewer Bonds	2,430,000	-	95,000	2,335,000	100,000
Storm Bonds	4,445,000	-	175,000	4,270,000	180,000
Landfill Closure/Postclosure	2,672,558	19,195	-	2,691,753	0
Capital Lease Payable	-	382,190	35,422	346,768	72,636
Compensated Absences	<u>511,122</u>	<u>8,125</u>	<u>38,059</u>	<u>481,189</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 40,323,830</u>	<u>\$664,356</u>	<u>\$ 1,889,997</u>	<u>\$39,098,189</u>	<u>\$1,928,890</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.

ODOT DRIP TIF Loan and Fire Truck Loan

The Loan from ODOT is for a new industrial Park road beginning at the southeasternmost corner of the land owned by the City of Marion and the centerline intersection of the Fairground street right of way. Proceeds of the Fire Truck Loan with Fahey Bank were used to purchase a Fire Truck for the City Fire Department.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

17. LONG-TERM OBLIGATIONS (Continued)

Taxable Housing Bonds

In 1999, the City issued \$600,000 in taxable housing bonds related to the Harding Center Project. The bonds are backed by the full faith and credit of the 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.

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

The OWDA and OPWC loans are for utility construction projects in the enterprise funds. Property and revenue of the utility facilities have been pledged to repay these debts. Also, a portion of the loans represent the Williamsport Road Improvement project.

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 2004, the City received \$218,045 of loan proceeds which are included as loans payable in the enterprise fund type on the accompanying financial statements. Of those proceeds, \$25,733 was paid to Erie Metroparks for the WRRSP environmental project. This amount is included in the enterprise fund type other non-operating expense in the accompanying financial statements.

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, 2004.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

17. LONG-TERM OBLIGATIONS (Continued)

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

GOVERNMENTAL

YEAR	GENERAL OBLIGATION BONDS		ODOT LOAN		OPWC LOAN	
	Principal	Interest	Principal	Interest	Principal	Interest
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	78,000	62,995	174,042	38,471	6,410	0
2010-2014	458,000	248,769	774,207	75,849	32,051	0
2015-2019	680,000	116,658	0	0	32,051	0
2020-2023	90,000	4,860	0	0	16,025	0
TOTAL	\$1,501,000	\$722,805	\$1,575,637	\$336,992	\$112,177	\$0

CONVENTIONAL FIRE
TRUCK LOAN

YEAR	Principal	Interest
2005	\$61,230	\$26,215
2006	63,603	23,842
2007	66,607	21,377
2008	68,628	18,817
2009	71,287	16,158
2010-2014	378,213	37,148
	\$709,028	\$143,557

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

17. LONG-TERM OBLIGATIONS (Continued)

BUSINESS-TYPE ACTIVITIES

YEAR	OPWC LOANS - SEWER		OWDA LOANS - SEWER		GO BOND - SEWER	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$106,119	\$0	\$1,231,304	\$423,429	\$100,000	\$119,515
2006	106,119	0	1,253,188	401,546	105,000	114,965
2007	106,119	0	1,275,556	379,177	110,000	110,135
2008	106,119	0	1,298,422	356,313	115,000	105,020
2009	106,119	0	1,321,800	332,933	120,000	99,615
2010-2014	525,356	0	6,978,764	1,294,202	690,000	404,010
2015-2019	303,207	0	6,979,512	668,277	885,000	204,160
2020-2023	239,016	0	4,890,447	151,548	210,000	11,340
TOTAL	\$1,598,174	\$0	\$25,228,993	\$4,008,125	\$2,335,000	\$1,168,760

BUSINESS-TYPE ACTIVITIES

YEAR	OPWC LOANS - STORM		GO BOND - STORM		OWDA LOAN - SANITATION	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	13,078	0	180,000	218,615	129,130	75,944
2006	13,769	0	190,000	210,425	134,808	70,266
2007	13,769	0	200,000	201,685	140,736	64,338
2008	13,769	0	210,000	192,385	146,925	58,149
2009	13,769	0	220,000	182,515	153,386	51,688
2010-2014	68,845	0	1,260,000	740,940	874,231	151,410
2015-2019	68,845	0	1,635,000	374,115	198,563	6,511
2020-2024	39,038	0	200,000	20,250	0	0
TOTAL	\$244,843	\$0	\$4,270,000	\$2,367,420	\$1,901,469	\$559,419

18. CAPITAL LEASES – LESSEE DISCLOSURE

The City has entered into a capital lease for sanitation packers. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

18. CAPITAL LEASES – LESSEE DISCLOSURE (Continued)

	<u>Governmental Activities</u>
Property under Capital Lease	\$382,190
Less Accumulated Depreciation	<u>(35,422)</u>
Total December 31, 2004	<u><u>\$346,768</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004. Principal payments in 2004 were \$35,422.

	<u>Governmental Activities</u>
<u>Fiscal Year Ending December 31,</u>	
2005	\$83,318
2006	83,318
2007	83,318
2008	83,318
2009	<u>41,659</u>
Subtotal	374,931
Less: Amount Representing Interest	<u>(28,163)</u>
Present Value of Minimum Lease Payments	<u><u>\$346,768</u></u>

19. INTERFUND TRANSFERS

The General Fund made transfers to other governmental funds, and an enterprise fund, in the amount of \$1,103,096, and \$94,603, respectively, to subsidize various programs. Nonmajor governmental funds made transfers to other governmental funds in the amount of \$23,315 to distribute monies to other funds.

20. 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 2004 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.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

20. JOINTLY GOVERNED ORGANIZATIONS (Continued)

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 2004, 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 2004, the City paid membership dues of \$500 toward the operation of the Council.

21. 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, 2004, to December 31, 2004, 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, 2004
(Continued)**

22. 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 \$2,691,753 as of December 31, 2004, which is based on 100% usage (filled) of the landfill. The estimated total current costs of the landfill postclosure care (\$2,691,753) 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, 2004. 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".

23. SUBSEQUENT EVENTS

On October 10, 2005, the City issued \$6,505,000 of bond anticipation notes. Of this total, \$1,410,000 was for purposes of financing sanitary sewer improvements, while \$2,090,000 was to be used for various storm sewer improvement projects. The remaining \$3,005,000 was used to retire outstanding sanitary sewer notes and central garage construction project notes of \$1,225,000 and \$1,780,000, respectively.

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**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Health</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	214-D	10.557	\$264,197
Total - U.S. Department of Agriculture			<u>264,197</u>
<u>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Community Development Block Grants/Brownfields			
Economic Development Initiative		14.246	176,090
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant - State's Program	A-C-04-142-1	14.228	314
Community Development Block Grant - State's Program	A-C-02-142-1	14.228	31,511
Community Development Block Grant - State's Program	A-F-03-142-1	14.228	177,001
Community Development Block Grant - State's Program	A-F-02-142-1	14.228	12,016
Community Development Block Grant - State's Program	A-X-01-142-1	14.228	8,386
Community Development Block Grant - State's Program	A-X-02-142-1	14.228	297
Total Community Development Block Grant - State's Program			<u>229,525</u>
Home Investment Partnership Program	A-C-04-142-2	14.239	3,140
Home Investment Partnership Program	A-C-02-142-2	14.239	194,822
Total Home Investment Partnership Program			<u>197,962</u>
Total - U.S. Department of Housing and Urban Development			<u>603,577</u>
<u>UNITED STATES DEPARTMENT OF JUSTICE</u>			
Bulletproof Vest Program		16.607	2,375
<i>Passed Through Ohio Department of Youth Services</i>			
Juvenile Accountability Incentive Block Grants	2003-JB-15-A046	16.523	11,751
Juvenile Accountability Incentive Block Grants	2002-JB-007-A046	16.523	1,780
Total Juvenile Accountability Incentive Block Grants			<u>13,531</u>
<i>Passed Through Ohio Office of Criminal Justice Services</i>			
School Resource Officer Grant	2002-DG-B01-7340A	16.540	26,022
Violence Against Women Formula Grants	2003-WF-VA2-8110	16.588	60,000
Total - U.S. Department of Justice			<u>101,928</u>
<u>UNITED STATES DEPARTMENT OF TRANSPORTATION</u>			
Airport Improvement Program		20.106	1,246,101
<i>Passed Through Ohio Department of Transportation</i>			
Federal Transit Formula Grants	RPT-4051-023-041	20.507	352,488
Formula Grants for Other Than Urbanized Areas	RPT-4051-023-043	20.509	18,563
Total - U.S. Department of Transportation			<u>1,617,152</u>
<u>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<i>Passed Through Ohio Department of Aging</i>			
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Citizens	N/A	93.044	48,970
Special Programs for the Aging - Title III, Part E Grants for Supportive Services and Senior Citizens	N/A	93.044	5,129
Total - U.S. Department of Health and Human Services			<u>54,099</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u>\$2,640,953</u>

The accompanying notes are an integral part of this schedule.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004**

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, 2004, the gross amount of loans outstanding under this program was \$736,768, with no 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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 10, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2004-001.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the City's management dated November 4, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-002. In a separate letter to the City's management dated November 10, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the finance committee, management, City Council, federal awarding agencies and pass-through entities. It is not intended for 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

November 10, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 apply to each of its major federal programs for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to each of its major federal programs for the year ended December 31, 2004. In a separate letter to the City's management dated November 10, 2005, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The City's management 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 directly and materially affect a major federal program 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.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
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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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the finance committee, management, City Council, federal awarding agencies and pass-through entities. It is not intended for 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

November 10, 2005

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #10.557 – Special Supplemental Nutrition Program – Women, Infants, Children (WIC) CFDA #20.106 – Airport Improvement Program
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004
(Continued)**

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

FINDING NUMBER 2004-001

Reportable Condition- GAAP Financial Statement Preparation and Reporting

Financial statements prepared using generally accepted accounting principles (GAAP) enhance the decision-making capabilities of elected officials and department managers charged with the operations of the City, and others with regulatory interests in the results of operations and available resources of the City. GAAP basis financial statements provide financial statement users with an accurate financial picture of the City's results of operations and available resources by including accrued assets, liabilities, revenues and expenditures/expenses.

However, financial information becomes less valuable with the passage of time. This is primarily because accrued revenues and expenditures become realized. Those relying upon the City's financial statements may draw different conclusions if GAAP basis financial statements are not completed in a timely and accurate fashion. Inaccurate and untimely financial statements could possibly lead to decision-making which is not in the best interests of the City.

The City did not prepare a complete set of GAAP basis basic financial statements until October 3, 2005, nine months after the year ending December 31, 2004. Furthermore, as a result of applying auditing procedures, the financial statements required 36 audit adjustments to be compliant with GAAP; there were also 46 adjustments waived, because the misstatement amounts were deemed immaterial to the financial statements. Additionally the financial statements and the related footnotes contained several errors, and omitted Managements' Discussion and Analysis, which the Governmental Accounting Standards Board has determined is required supplementary information.

To enhance financial accountability and decision making by elected officials, department managers, and citizens of the City, we recommend the City prepare its GAAP basis basic financial statements in accurate and timely fashion as required by the Ohio Administrative Code. The Ohio Administrative Code requires financial statements to be completed within 150 days of year end.

Client Response

The City of Marion recognizes the importance of accurate and timely prepared financial statements. We have always tried to adhere to the reporting requirements of the Ohio Administrative Code.

In 2004, we contracted for assistance for the implementation of GASB 34 into our 2003 financial statements. Having gone through that process, we thought that we could prepare the 2004 financial statements on our own. We did not anticipate some of the difficulties that we encountered while preparing the 2004 financial statements and related footnotes. The result of which was the issuance of this finding.

To eliminate this reportable condition, we will be engaging a CPA firm to assist us in the preparation of the 2005 financial statements.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004
(Continued)**

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

FINDING NUMBER 2004-002

Ineligible Depositories

In general, Ohio Rev. Code Sections 135.14(B)(3), 135.08, and 135.09 require interim deposits to be awarded to eligible institutions who properly apply with the legislative authority. Ohio Rev. Code Section 135.03 states in part that any national bank located in this state and any bank as defined in Ohio Rev. Code Section 1101.01, subject to inspection by the superintendent of financial institutions, is eligible to become a public depository, subject to sections 135.01 to 135.21 of the Ohio Rev. Code.

At December 31, 2004, the City had \$396,003 of negotiable certificates of deposit held by financial institutions that were not domiciled (i.e. had a presence) in Ohio. As a result, those investments were held by ineligible public depositories and are therefore unallowable investments.

We recommend the City utilize eligible financial institutions located in the State of Ohio for its public depositories.

Client Response

At the time the referenced investments were made, we reviewed the City's investment policy and felt that each investment met our foremost investment objective, which is "safety of principal". The FDIC insures each of the investments. There is no possibility that we would or could lose any of our investment dollars. The maturity of each investment falls within our 5-year parameter. The yield on each of the investments was the best that we could find at that time and each was FDIC insured. So we made the investment. The last of which was made on June 13, 2005.

Since being informed by the Auditor of State that these investments were with ineligible financial institutions, a fact that we do not dispute, we have ceased making such investments. However, due to the imposition of an early withdrawal penalty, it is the City's intention to hold each of the investments to its respective maturity date

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

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 30, 2005**