



Dave Yost • Auditor of State



**CITY OF MARION  
MARION COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

City of Marion  
Marion County  
233 West Center Street  
Marion, Ohio 43302

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, 2011, 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, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Street Construction, Maintenance and Repair funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.


As described in Note 3 during 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in Note 25 to the financial statements, the City has suffered recurring losses from operations and has a net asset deficiency. Note 25 describes management's plans regarding this matter. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the 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. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

July 3, 2012

**CITY OF MARION  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

The discussion and analysis of the City of Marion's financial performance provides an overview of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2011 are as follows:

In total, the City's net assets decreased 3 percent from the prior year; a decrease of 5 percent for governmental activities and increase of over 15 percent for business-type activities. While there was a modest increase in revenues and an overall decrease in expenses for governmental activities, continued cash carryover spending resulted in the decrease in net assets. For business-type activities there were increases in both revenues and expenses from the prior year; however, revenues remained in excess of amounts needed for operations.

General revenues made up 66 percent of the total revenues for governmental activities in 2011, and of this amount, 48 percent was provided through municipal income taxes, the most critical of the City's revenue sources. Program revenues, primarily user charges, made up 98 percent of the revenues for business-type activities.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the City's financial position.

The statement of net assets and the statement of activities provide information about the activities of the City as a whole, presenting both an aggregate and a longer-term view of the City.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the City's most significant funds individually and the City's non-major funds in a single column. The City's major funds are the General Fund, the Street Construction, Maintenance, and Repair special revenue fund, and the Sewer, Sanitation, Landfill, Storm Water, and Aquatics Center enterprise funds.

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the City as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors can include changes in the City's property tax base and the condition of the City's capital assets (buildings, streets, equipment, sewer and storm water lines). These factors must be considered when assessing the overall health of the City.

**CITY OF MARION  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

In the statement of net assets and the statement of activities, the City is divided into two types of activities:

- Governmental Activities - Most of the City's programs and services are reported here, including security of persons and property, public health, leisure time activities, community environment, transportation, and general government. These services are primarily funded by property taxes and income taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.
- Business-Type Activities - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The City's sewer, sanitation, landfill, and storm water services as well as the City's aquatics center are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the City's major funds, the General Fund, the Street Construction, Maintenance, and Repair special revenue fund, and the Sewer, Sanitation, Landfill, Storm Water, and Aquatics Center enterprise funds. While the City uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The City's governmental funds are used to account for essentially the same programs reported as governmental activities on the government-wide financial statements. Most of the City's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services being provided.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to help make this comparison between governmental funds and governmental activities.

Proprietary Funds - The City has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements and use the accrual basis of accounting. The City uses enterprise funds to account for sewer, sanitation, landfill, storm water, and the aquatics center's operations. The internal service fund is an accounting device used to accumulate and allocate internal costs among other programs and activities. The City's internal service fund accounts for the City's central garage which provides vehicle maintenance to departments of the City.



**CITY OF MARION  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2011 and 2010.

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<u>Assets</u>						
Current and Other Assets	\$14,316,622	\$15,162,967	\$9,926,627	\$13,549,730	\$24,243,249	\$28,712,697
Capital Assets, Net	71,048,900	74,737,780	43,564,624	43,445,138	114,613,524	118,182,918
Total Assets	85,365,522	89,900,747	53,491,251	56,994,868	138,856,773	146,895,615
<u>Liabilities</u>						
Current and Other Liabilities	5,123,839	4,584,427	10,389,778	12,579,353	15,513,617	17,163,780
Long-Term Liabilities	9,947,528	11,059,751	34,298,432	36,798,096	44,245,960	47,857,847
Total Liabilities	15,071,367	15,644,178	44,688,210	49,377,449	59,759,577	65,021,627
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	66,187,425	69,544,904	11,772,304	11,323,625	77,959,729	80,868,529
Restricted	7,152,831	7,611,133	0	0	7,152,831	7,611,133
Unrestricted (Deficit)	(3,046,101)	(2,899,468)	(2,969,263)	(3,706,206)	(6,015,364)	(6,605,674)
Total Net Assets	\$70,294,155	\$74,256,569	\$8,803,041	\$7,617,419	\$79,097,196	\$81,873,988

The above table reflects a few notable changes for governmental activities from the prior year. Current and other assets decreased over 5 percent from a combination of factors, the most significant of which included a decrease in cash and cash equivalents, a large portion related to the City's contribution towards resurfacing projects, a decrease in amounts due from other governments as the City continued to have outstanding receivables at the conclusion of the prior year related to American Recovery and Reinvestment Act resources, and a decrease in the receivable for municipal income taxes as lower area employment resulted in lower tax collections. These factors are reflected in the changes in both restricted and unrestricted net assets. The reduction in net capital assets and invested in capital assets is primarily due to annual depreciation. The increase in current and other liabilities is due, in large part, to vacation and compensation for overtime payments made to police and firefighters during the year. The decrease in long-term liabilities simply reflects debt reduction as the City did not issue any new long-term debt for governmental activities during 2011.

There were several significant changes for business-type activities as well. The decrease in current and other assets was due to a decrease in cash and cash equivalents, generally due to spending resources on various sewer and storm water projects. Completion of these projects is also reflected in the decrease in current and other liabilities as outstanding amounts due to contractors were paid. The reduction in long-term liabilities reflects principal retired during the year.

**CITY OF MARION  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

Table 2 reflects the change in net assets for 2011 and 2010.

Table 2  
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<u>Revenues</u>						
<u>Program Revenues</u>						
Charges for Services	\$2,763,407	\$2,185,283	\$9,734,361	\$8,618,552	\$12,497,768	\$10,803,835
Operating Grants, Contributions, and Interest	5,328,581	4,403,920	131,206	0	5,459,787	4,403,920
Capital Grants, Contributions, and Interest	342,991	263,176	1,990,553	1,373,492	2,333,544	1,636,668
<b>Total Program Revenues</b>	<b>8,434,979</b>	<b>6,852,379</b>	<b>11,856,120</b>	<b>9,992,044</b>	<b>20,291,099</b>	<b>16,844,423</b>
<u>General Revenues</u>						
Property Taxes Levied for General Purposes	1,081,136	1,138,506	0	0	1,081,136	1,138,506
Property Taxes Levied for Police and Fire Pension	196,399	207,376	0	0	196,399	207,376
Payment in Lieu of Taxes	366,126	361,716	0	0	366,126	361,716
Municipal Income Taxes Levied for General Purposes	11,166,623	11,831,522	0	0	11,166,623	11,831,522
Municipal Income Taxes Levied for Street Construction, Maintenance, and Repair	279,941	377,602	0	0	279,941	377,602
Municipal Income Taxes Levied for Capital Improvements	317,767	377,602	0	0	317,767	377,602
Grants and Entitlements not Restricted to Specific Programs	2,146,727	1,936,793	0	0	2,146,727	1,936,793
Franchise Taxes	297,964	288,289	0	0	297,964	288,289
Interest	166,410	333,457	0	0	166,410	333,457
Other	252,278	137,018	275,865	296,571	528,143	433,589
<b>Total General Revenues</b>	<b>16,271,371</b>	<b>16,989,881</b>	<b>275,865</b>	<b>296,571</b>	<b>16,547,236</b>	<b>17,286,452</b>
<b>Total Revenues</b>	<b>24,706,350</b>	<b>23,842,260</b>	<b>12,131,985</b>	<b>10,288,615</b>	<b>36,838,335</b>	<b>34,130,875</b>
<u>Program Expenses</u>						
<u>Security of Persons and Property</u>						
Police	6,641,183	7,637,515	0	0	6,641,183	7,637,515
Fire	5,864,658	6,205,475	0	0	5,864,658	6,205,475
Other	258,206	274,704	0	0	258,206	274,704
Public Health	489,284	636,408	0	0	489,284	636,408
Leisure Time Activities	1,126,954	1,420,937	0	0	1,126,954	1,420,937
Community Environment	2,572,072	1,363,569	0	0	2,572,072	1,363,569
<u>Transportation</u>						
Transit	922,873	820,298	0	0	922,873	820,298
Other	6,600,017	7,953,290	0	0	6,600,017	7,953,290

(continued)

**CITY OF MARION  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

Table 2  
Change in Net Assets  
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<u>Program Expenses</u> (continued)						
General Government						
Court	\$976,447	\$1,001,001	\$0	\$0	\$976,447	\$1,001,001
Other	3,396,209	4,087,826	0	0	3,396,209	4,087,826
Interest and Fiscal Charges	182,157	302,978	0	0	182,157	302,978
Sewer	0	0	5,796,461	5,795,346	5,796,461	5,795,346
Sanitation	0	0	2,196,659	2,039,259	2,196,659	2,039,259
Landfill	0	0	(5,259)	108,154	(5,259)	108,154
Storm Water	0	0	2,299,682	1,640,079	2,299,682	1,640,079
Aquatic Center	0	0	297,524	12,740	297,524	12,740
Total Expenses	<u>29,030,060</u>	<u>31,704,001</u>	<u>10,585,067</u>	<u>9,595,578</u>	<u>39,615,127</u>	<u>41,299,579</u>
Increase (Decrease) in Net Assets Before Transfers	(4,323,710)	(7,861,741)	1,546,918	693,037	(2,776,792)	(7,168,704)
Transfers	<u>361,296</u>	<u>1,643,729</u>	<u>(361,296)</u>	<u>(1,643,729)</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Assets	(3,962,414)	(6,218,012)	1,185,622	(950,692)	(2,776,792)	(7,168,704)
Net Assets Beginning of Year	74,256,569	80,474,581	7,617,419	8,568,111	81,873,988	89,042,692
Net Assets End of Year	<u>\$70,294,155</u>	<u>\$74,256,569</u>	<u>\$8,803,041</u>	<u>\$7,617,419</u>	<u>\$79,097,196</u>	<u>\$81,873,988</u>

The above table reflects the revenues and expenses for operating the City during 2011. For governmental activities, program revenues reflect the most significant changes from the prior year. The increase in charges for services is primarily related to EMS services. The City has hired a firm to assist in the collection of outstanding EMS charges. The increase in operating grants and contributions reflects additional grant resources received, particularly the Clean Ohio Grant obtained from the Department of Development for use on the Linden Place property. General revenues remained fairly similar to the prior year; however, note the decrease in municipal income taxes as employment in the area continued to struggle. The increase in unrestricted grants and entitlements reflects estate taxes received by the City during 2011.

Expenses for governmental activities decreased by 8 percent as spending reductions were necessary in almost all programs and included such actions as changes in the pension costs picked up by the City, reduced work weeks, and layoffs. The only program which had a considerable increase in costs was the community environment program as a result of the Clean Ohio Grant related activities. Despite all of the costs reductions implemented by the City, expenses remained in excess of revenues for the year.

As is to be expected, 98 percent for the revenues for business type activities are received through charges for services provided to the users of the service. The increase in charges for services revenues was primarily reflected in the Sanitation Fund. During 2011, the City increased sanitation rates from \$38.50 to \$40.66 for each two-month period. The increase in capital grants and contributions is due to resources related to sewer and storm water projects. The most significant change in expenses for business-type activities is also related to storm water activities.

**CITY OF MARION  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Security of Persons and Property				
Police	6,641,183	\$7,637,515	\$6,129,975	\$7,040,044
Fire	5,864,658	6,205,475	4,753,007	6,189,713
Other	258,206	274,704	258,206	274,704
Public Health	489,284	636,408	396,555	563,952
Leisure Time Activities	1,126,954	1,420,937	870,795	887,523
Community Environment	2,572,072	1,363,569	521,764	116,826
Transportation				
Transit	922,873	820,298	(184,745)	62,826
Other	6,600,017	7,953,290	4,781,002	6,112,758
General Government				
Court	976,447	1,001,001	5,477	(128,002)
Other	3,396,209	4,087,826	2,880,888	3,428,300
Interest and Fiscal Charges	182,157	302,978	182,157	302,978
<b>Total Expenses</b>	<b>\$29,030,060</b>	<b>\$31,704,001</b>	<b>\$20,595,081</b>	<b>\$24,851,622</b>

While the dependence on general revenues (primarily municipal income taxes) to pay for the various services provided by the City is significant, program revenues in several of the programs provide for a considerable portion of the costs. For example, charges for services (such as rental fees, membership and admission charges) and operating grants provide for 23 percent of the costs of the leisure time activities program. Various operating grants, generally the CDBG and CHIP programs, and in 2011, the Clean Ohio grant program, provided for 80 percent of the costs of the community environment program. Charges for services and various grants and contributions provided for 61 percent of transportation costs. The transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes. In addition, the City receives grants to assist in operating the public transit system. Lastly, court related fines and charges provided program revenues almost covering the costs of court operations.

**GOVERNMENTAL FUNDS FINANCIAL ANALYSIS**

The City's major governmental funds are the General Fund, the Street Construction, Maintenance, and Repair special revenue fund, and Capital Improvements capital projects fund. Fund balance in the General Fund decreased again in 2011. Although there was a modest increase in revenues, it was not sufficient to match the increase in expenditures resulting in additional cash carryover spending.

**CITY OF MARION  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

Fund balance decreased 15 percent in the Street Construction, Maintenance, and Repair Fund. There was a decrease in both revenues and expenditures. In addition, the fund received an operating subsidy from other funds, in the amount of \$710,000; however, expenditures were still greater than available resources for the year.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds provide for wastewater treatment, trash collection, landfill postclosure activities, the storm water runoff system, and operations of an aquatics center. Net assets increase in the Sewer Fund by \$1.2 million due to contributions of \$1.2 million towards construction activities.

The Sanitation Fund had a 21 percent increase in net assets primarily due to an increase in the collection rate from \$38.50 to \$40.66 for each two-month period.

The Landfill Fund had an 11 percent increase in net assets. The Landfill stopped accepting waste in 1995; all costs at this point are related to postclosure activities.

The Storm Water Fund had a 6 percent decrease in net assets, largely due to a loss sustained on the disposal of assets.

The Aquatics Center Fund also had a decrease in net assets. The Aquatics Center was still in the construction stage in 2011. The Center opened for operations in June 2012.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. For revenues, there was a 13 percent decrease in the revenue estimate from the original budget to the final budget due to an optimistic estimate for municipal income tax revenue. However, continued poor employment in the area required a reduction in that estimate. Changes from the final budget to actual revenues received were not significant. Given that original budget amounts for expenditures were based on revenue estimates, there was also a decrease made from the original budget to the final budget. Again, changes from the final budget to actual expenditures were not significant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2011, was \$71,048,900 and \$43,564,624, respectively (net of accumulated depreciation). The most significant additions for governmental activities included both ongoing and completed street improvements, completion of the taxiway project at the Airport, two patrol vehicles, and four buses for the transit system. There were no disposals. The most significant additions for business-type activities were both ongoing and completed sewer and storm water improvements. Disposals were minimal. For further information regarding the City's capital assets, refer to Note 11 to the basic financial statements.

**CITY OF MARION  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
UNAUDITED**

Debt - At December 31, 2011, the City had \$9,400,000 in bond anticipation notes payable from business-type activities. The City also had a number of long-term obligations outstanding including \$18,360,000 in general obligation bonds, \$607,478 in loans for an ODOT related project, \$1,493,521 in Ohio Public Works Commission loans, \$227,245 in capital loans, and \$16,966,329 in Ohio Water Development Authority loans. Of this debt, \$31,752,088 will be paid from business-type activities.

In addition, the City's long-term obligations also include compensated absences and the liability associated with the future payment of landfill postclosure costs. For further information regarding the City's debt, refer to Notes 17, 18, and 19 to the basic financial statements.

CURRENT ISSUES

The 2012 year continues to be challenging for the City of Marion. Income tax revenues are currently on track and but new development and job creation has been slow. State cuts continue to have an impact on the City. We are looking at another \$720,000 shortfall for 2013 due to the loss of the estate tax revenue and another 25 percent cut in local government funding from the State. City Council did approve universal filing of income tax and has reduced the income tax credit paid to other municipalities to a 50 percent credit. This should increase anticipated income tax revenues by at least \$300,000. City Council is considering putting an income tax increase on the ballot for the operations of the safety service departments; however, a final decision has not yet been made.

The AFSCME agreement will be open for negotiation in 2012. All other union contracts are in effect until 2013 or 2014.

The Aquatic Center has opened. This project cost \$3.5 million dollars. The City will be using revenue received from the lease with Marion General Hospital to pay for the debt and operations for the foreseeable future.

The City will be converting bond anticipation notes into general obligation bonds in 2012. In addition, the City will also be borrowing \$750,000 to start engineering and design for three new sewer/sanitation projects, including Latourette Street, Greenwood Street, and Orchard Street. These projects will be funded by the Sewer and Sanitation funds.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in our City's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Kelly L. Carr, City Auditor, City of Marion, 233 West Center Street, Marion, Ohio 43302.

**CITY OF MARION  
MARION COUNTY**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 5,288,492	\$ 3,920,211	\$ 9,208,703
Accounts Receivable	1,079,844	5,746,330	6,826,174
Accrued Interest Receivable	12,022	-	12,022
Due from Other Governments	1,947,674	-	1,947,674
Municipal Income Taxes Receivable	2,826,663	-	2,826,663
Internal Balances	(139,180)	139,180	-
Due from External Parties	1,106	-	1,106
Prepaid Items	38,896	18,524	57,420
Materials and Supplies Inventory	341,644	102,382	444,026
Property Taxes Receivable	1,540,074	-	1,540,074
Payment in Lieu of Taxes Receivable	371,717	-	371,717
Notes Receivable	1,007,670	-	1,007,670
Nondepreciable Capital Assets	9,470,589	2,339,153	11,809,742
Depreciable Capital Assets, Net	61,578,311	41,225,471	102,803,782
<b>Total Assets</b>	<b>85,365,522</b>	<b>53,491,251</b>	<b>138,856,773</b>
<u>Liabilities</u>			
Accrued Wages Payable	443,378	87,546	530,924
Accounts Payable	368,671	144,972	513,643
Contracts Payable	858,188	420,491	1,278,679
Due to Other Governments	1,114,959	131,660	1,246,619
Retainage Payable	-	106,219	106,219
Matured Compensated Absences Payable	371,879	-	371,879
Separation Benefits Payable	341,762	-	341,762
Accrued Interest Payable	21,933	98,890	120,823
Notes Payable	-	9,400,000	9,400,000
Deferred Revenue	1,603,069	-	1,603,069
Long-Term Liabilities			
Due Within One Year	984,538	2,789,998	3,774,536
Due in More Than One Year	8,962,990	31,508,434	40,471,424
<b>Total Liabilities</b>	<b>15,071,367</b>	<b>44,688,210</b>	<b>59,759,577</b>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	66,187,425	11,772,304	77,959,729
Restricted for			
Capital Projects	3,764,288	-	3,764,288
Street Construction, Maintenance, and Repair	1,088,895	-	1,088,895
Other Purposes	2,299,648	-	2,299,648
Unrestricted (Deficit)	(3,046,101)	(2,969,263)	(6,015,364)
<b>Total Net Assets</b>	<b>\$ 70,294,155</b>	<b>\$ 8,803,041</b>	<b>\$ 79,097,196</b>

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION  
MARION COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants Contributions, and Interest	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
Security of Persons and Property							
Police	\$ 6,641,183	\$ 83,637	\$ 427,571	\$ -	\$ (6,129,975)	\$ -	\$ (6,129,975)
Fire	5,864,658	1,096,237	15,414	-	(4,753,007)	-	(4,753,007)
Other	258,206	-	-	-	(258,206)	-	(258,206)
Public Health	489,284	92,729	-	-	(396,555)	-	(396,555)
Leisure Time Activities	1,126,954	64,557	191,602	-	(870,795)	-	(870,795)
Community Environment	2,572,072	-	2,033,262	17,046	(521,764)	-	(521,764)
Transportation							
Transit	922,873	138,484	969,134	-	184,745	-	184,745
Other	6,600,017	47,411	1,445,659	325,945	(4,781,002)	-	(4,781,002)
General Government							
Court	976,447	952,556	18,414	-	(5,477)	-	(5,477)
Other	3,396,209	287,796	227,525	-	(2,880,888)	-	(2,880,888)
Interest and Fiscal Charges	182,157	-	-	-	(182,157)	-	(182,157)
<b>Total Governmental Activities</b>	<b>29,030,060</b>	<b>2,763,407</b>	<b>5,328,581</b>	<b>342,991</b>	<b>(20,595,081)</b>	<b>-</b>	<b>(20,595,081)</b>
<b>Business-Type Activities</b>							
Sewer	5,796,461	5,777,897	-	1,252,702	-	1,234,138	1,234,138
Sanitation	2,196,659	2,660,450	-	-	-	463,791	463,791
Landfill	(5,259)	207,000	131,156	-	-	343,415	343,415
Storm Water	2,299,682	1,089,014	-	737,851	-	(472,817)	(472,817)
Aquatics Center	297,524	-	50	-	-	(297,474)	(297,474)
<b>Total Business-Type Activities</b>	<b>10,585,067</b>	<b>9,734,361</b>	<b>131,206</b>	<b>1,990,553</b>	<b>-</b>	<b>1,271,053</b>	<b>1,271,053</b>
<b>Total</b>	<b>\$ 39,615,127</b>	<b>\$ 12,497,768</b>	<b>\$ 5,459,787</b>	<b>\$ 2,333,544</b>	<b>(20,595,081)</b>	<b>1,271,053</b>	<b>(19,324,028)</b>
<b>General Revenues</b>							
Property Taxes Levied for General Purposes					1,081,136	-	1,081,136
Property Taxes Levied for Police and Fire Pension					196,399	-	196,399
Payment in Lieu of Taxes					366,126	-	366,126
Municipal Income Taxes Levied for General Purposes					11,166,623	-	11,166,623
Municipal Income Taxes Levied for Street Construction, Maintenance, and Repair					279,941	-	279,941
Municipal Income Taxes Levied for Capital Improvements					317,767	-	317,767
Grants and Entitlements not Restricted to Specific Programs					2,146,727	-	2,146,727
Franchise Taxes					297,964	-	297,964
Interest					166,410	-	166,410
Other					252,278	275,865	528,143
<b>Total General Revenues</b>					<b>16,271,371</b>	<b>275,865</b>	<b>16,547,236</b>
Transfers					361,296	(361,296)	-
<b>Total General Revenues and Transfers</b>					<b>16,632,667</b>	<b>(85,431)</b>	<b>16,547,236</b>
Change in Net Assets					(3,962,414)	1,185,622	(2,776,792)
Net Assets Beginning of Year - Restated (Note3)					74,256,569	7,617,419	81,873,988
Net Assets End of Year					<b>\$ 70,294,155</b>	<b>\$ 8,803,041</b>	<b>\$ 79,097,196</b>

See Accompanying Notes to the Basic Financial Statements



**CITY OF MARION  
MARION COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Street Construction, Maintenance, and Repair	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 14,368	\$ -	\$ 5,130,585	\$ 5,144,953
Accounts Receivable	1,076,293	-	1,161	1,077,454
Accrued Interest Receivable	12,022	-	-	12,022
Due from Other Governments	817,912	626,048	503,714	1,947,674
Municipal Income Taxes Receivable	2,657,065	84,799	84,799	2,826,663
Interfund Receivable	582,252	1,139,726	304,667	2,026,645
Due from External Parties	425	-	681	1,106
Prepaid Items	32,211	3,149	2,334	37,694
Materials and Supplies Inventory	20,524	76,401	372	97,297
Property Taxes Receivable	1,304,178	-	235,896	1,540,074
Payment in Lieu of Taxes Receivable	-	-	371,717	371,717
Notes Receivable	-	-	1,007,670	1,007,670
<b>Total Assets</b>	<b>\$ 6,517,250</b>	<b>\$ 1,930,123</b>	<b>\$ 7,643,596</b>	<b>\$ 16,090,969</b>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$ 378,238	\$ 25,781	\$ 33,676	\$ 437,695
Accounts Payable	175,673	24,182	119,311	319,166
Contracts Payable	-	532,201	325,987	858,188
Due to Other Governments	917,111	36,934	151,961	1,106,006
Matured Compensated Absences Payable	342,367	29,512	-	371,879
Interfund Payable	1,467,862	27,896	597,252	2,093,010
Deferred Revenue	4,358,639	592,405	1,014,321	5,965,365
<b>Total Liabilities</b>	<b>7,639,890</b>	<b>1,268,911</b>	<b>2,242,508</b>	<b>11,151,309</b>
<u>Fund Balance</u>				
Nonspendable	333,735	1,219,276	307,373	1,860,384
Restricted	-	-	5,637,420	5,637,420
Committed	159,519	-	-	159,519
Assigned	158,086	-	1,372	159,458
Unassigned (Deficit)	(1,773,980)	(558,064)	(545,077)	(2,877,121)
<b>Total Fund Balance (Deficit)</b>	<b>(1,122,640)</b>	<b>661,212</b>	<b>5,401,088</b>	<b>4,939,660</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 6,517,250</b>	<b>\$ 1,930,123</b>	<b>\$ 7,643,596</b>	<b>\$ 16,090,969</b>

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, 2011**

Total Governmental Fund Balance \$ 4,939,660

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.

Governmental Activities	71,048,900	
Internal Service Fund	(1,668,056)	
	<u>69,380,844</u>	69,380,844

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

Accounts Receivable	743,564	
Accrued Interest Receivable	3,806	
Due from Other Governments	1,441,388	
Municipal Income Taxes Receivable	1,592,614	
Property Taxes Receivable	308,722	
Special Assessments Receivable	272,202	
	<u>4,362,296</u>	4,362,296

An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities. (151,992)

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

Accrued Interest Payable	(18,486)	
General Obligation Bonds Payable	(3,768,500)	
ODOT DRIP TIF Payable	(607,478)	
OPWC Loans Payable	(70,512)	
Capital Loans Payable	(227,245)	
Compensated Absences Payable	(4,045,043)	
Compensated Absences Payable - Internal Service Fund	42,414	
Separation Benefits Payable	(341,762)	
	<u>(9,036,612)</u>	(9,036,612)

An internal service fund is used by management to charge the cost of engineering services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. 799,959

Net Assets of Governmental Activities \$ 70,294,155

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, 2011**

	General	Street Construction, Maintenance, and Repair	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$ 1,034,024	\$ -	\$ 187,927	\$ 1,221,951
Payment in Lieu of Taxes	-	-	366,126	366,126
Municipal Income Taxes	12,084,086	309,222	347,048	12,740,356
Charges for Services	1,056,894	2,850	138,484	1,198,228
Fees, Licenses, and Permits	333,118	18,045	-	351,163
Fines and Forfeitures	806,665	-	317,503	1,124,168
Intergovernmental	2,328,593	1,350,752	3,990,770	7,670,115
Interest	174,044	189	18,112	192,345
Other	195,598	2,950	756,727	955,275
<b>Total Revenues</b>	<b>18,013,022</b>	<b>1,684,008</b>	<b>6,122,697</b>	<b>25,819,727</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	6,145,231	-	633,155	6,778,386
Fire	5,400,261	-	126,208	5,526,469
Other	258,206	-	-	258,206
Public Health	488,966	-	-	488,966
Leisure Time Activities	1,003,771	-	111,150	1,114,921
Community Environment	338,202	-	2,233,870	2,572,072
Transportation				
Transit	-	-	1,197,923	1,197,923
Other	283,814	2,508,841	561,559	3,354,214
General Government				
Court	772,543	-	203,630	976,173
Other	2,774,565	-	307,407	3,081,972
Debt Service:				
Principal Retirement	-	-	634,053	634,053
Interest and Fiscal Charges	-	-	192,662	192,662
<b>Total Expenditures</b>	<b>17,465,559</b>	<b>2,508,841</b>	<b>6,201,617</b>	<b>26,176,017</b>
Excess of Revenues Over (Under) Expenditures	547,463	(824,833)	(78,920)	(356,290)
<u>Other Financing Sources (Uses)</u>				
Transfers In	83,000	709,951	1,236,629	2,029,580
Transfers Out	(927,897)	-	(736,088)	(1,663,985)
<b>Total Other Financing Sources (Uses)</b>	<b>(844,897)</b>	<b>709,951</b>	<b>500,541</b>	<b>365,595</b>
Changes in Fund Balance	(297,434)	(114,882)	421,621	9,305
Fund Balance (Deficit) Beginning of Year - Restated (Note 3)	(825,206)	776,094	4,979,467	4,930,355
<b>Fund Balance (Deficit) End of Year</b>	<b>\$ (1,122,640)</b>	<b>\$ 661,212</b>	<b>\$ 5,401,088</b>	<b>\$ 4,939,660</b>

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, 2011**

Changes in Fund Balance - Total Governmental Funds \$ 9,305

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 outlays in the current year.

Capital Outlay - Non-Depreciable Capital Assets	751,472	
Capital Outlay - Depreciable Capital Assets	391,417	
Depreciation	(4,831,769)	
Depreciation - Internal Service Fund	<u>47,463</u>	
		(3,641,417)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.

Property Taxes	55,584	
Municipal Income Taxes	(976,025)	
Charges for Services	385,356	
Fees, Licenses, and Permits	2,456	
Intergovernmental	(572,852)	
Interest	<u>(7,896)</u>	
		(1,113,377)

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

Notes Payable	250,000	
General Obligation Bonds Payable	224,600	
ODOT DRIP TIF Payable	76,124	
OPWC Loans Payable	6,410	
Capital Loans Payable	<u>76,919</u>	
		634,053

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets. 10,505

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

Compensated Absences Payable	430,670	
Compensated Absences Payable - Internal Service Fund	(18,752)	
Separation Benefits Payable	<u>(341,762)</u>	
		70,156

The internal service fund is used by management to charge the cost of motor pool/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. 68,361

Change in Net Assets of Governmental Activities \$ (3,962,414)

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, 2011**

	<u>Budgeted Amounts</u>			Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues</u>				
Property Taxes	\$ 1,104,130	\$ 1,054,676	\$ 1,034,024	\$ (20,652)
Municipal Income Taxes	12,747,121	10,641,262	10,905,230	263,968
Charges for Services	1,321,751	996,582	1,029,087	32,505
Fees, Licenses, and Permits	197,246	325,389	333,250	7,861
Fines and Forfeitures	974,100	794,819	813,970	19,151
Intergovernmental	2,133,542	2,156,232	2,212,338	56,106
Interest	266,000	169,518	179,506	9,988
Other	36,600	132,996	115,905	(17,091)
<b>Total Revenues</b>	<b>18,780,490</b>	<b>16,271,474</b>	<b>16,623,310</b>	<b>351,836</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	6,869,026	6,096,942	6,080,677	16,265
Fire	5,954,006	5,159,196	5,121,897	37,299
Other	329,894	272,483	272,270	213
Public Health	-	492,199	492,199	-
Leisure Time Activities	654,820	601,939	569,515	32,424
Community Environment	347,475	339,102	339,102	-
Transportation				
Other	344,603	292,787	279,476	13,311
General Government				
Court	779,220	771,288	766,942	4,346
Other	2,956,380	2,663,447	2,630,683	32,764
<b>Total Expenditures</b>	<b>18,235,424</b>	<b>16,689,383</b>	<b>16,552,761</b>	<b>136,622</b>
Excess of Revenues				
Under Expenditures	545,066	(417,909)	70,549	488,458
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	36,800	3,504	3,589	85
Advances In	100,000	31,000	31,000	-
Transfers In	260,000	83,000	83,000	-
Transfers Out	(1,233,726)	(519,095)	(492,073)	27,022
<b>Total Other Financing Sources (Uses)</b>	<b>(836,926)</b>	<b>(401,591)</b>	<b>(374,484)</b>	<b>27,107</b>
Changes in Fund Balance	(291,860)	(819,500)	(303,935)	515,565
Fund Balance Beginning of Year	(3,391)	(3,391)	(3,391)	-
Prior Year Encumbrances Appropriated	151,525	151,525	151,525	-
<b>Fund Balance (Deficit) End of Year</b>	<b>\$ (143,726)</b>	<b>\$ (671,366)</b>	<b>\$ (155,801)</b>	<b>\$ 515,565</b>

**CITY OF MARION  
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL  
STREET CONSTRUCTION, MAINTENANCE, AND REPAIR FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Municipal Income Taxes	\$ 1,148,600	\$ 1,046,126	\$ 1,003,963	\$ (42,163)
Charges for Services	5,000	2,850	2,850	-
Fees, Licenses, and Permits	17,800	18,045	18,045	-
Intergovernmental	1,482,000	1,377,713	1,377,713	-
Interest	5,000	178	189	11
Other	1,500	2,950	2,950	-
<b>Total Revenues</b>	<b>2,659,900</b>	<b>2,447,862</b>	<b>2,405,710</b>	<b>(42,152)</b>
<u>Expenditures</u>				
Current:				
Transportation	<u>3,205,320</u>	<u>2,423,234</u>	<u>2,411,096</u>	<u>12,138</u>
Changes in Fund Balance	(545,420)	24,628	(5,386)	(30,014)
Fund Balance (Deficit) Beginning of Year	(185,245)	(185,245)	(185,245)	-
Prior Year Encumbrances Appropriated	<u>175,648</u>	<u>175,648</u>	<u>175,648</u>	<u>-</u>
<b>Fund Balance (Deficit) End of Year</b>	<b><u>\$ (555,017)</u></b>	<b><u>\$ 15,031</u></b>	<b><u>\$ (14,983)</u></b>	<b><u>\$ (30,014)</u></b>

See Accompanying Notes to the Basic Financial Statements

CITY OF MARION  
MARION COUNTY

STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2011

	Business-Type Activities						Governmental
	Sewer	Sanitation	Landfill	Storm Water	Aquatics Center	Total Enterprise	Internal Service
<b>Assets</b>							
<u>Current Assets</u>							
Equity in Pooled Cash and Cash Equivalents	\$ 2,481,355	\$ -	\$ -	\$ 1,307,012	\$ 50	\$ 3,788,417	\$ 143,539
Accounts Receivable	2,461,899	2,643,344	-	641,087	-	5,746,330	2,390
Interfund Receivable	41,292	-	-	-	-	41,292	79,280
Prepaid Items	13,937	3,407	-	1,180	-	18,524	1,202
Materials and Supplies Inventory	101,821	276	-	285	-	102,382	244,347
<b>Total Current Assets</b>	<b>5,100,304</b>	<b>2,647,027</b>	<b>-</b>	<b>1,949,564</b>	<b>50</b>	<b>9,696,945</b>	<b>470,758</b>
<u>Non-Current Assets</u>							
Restricted Assets							
Equity in Pooled Cash and Cash Equivalents	-	-	131,794	-	-	131,794	-
Nondepreciable Capital Assets	560,931	-	162,571	30,948	1,584,703	2,339,153	61,943
Depreciable Capital Assets, Net	24,444,648	426,841	-	16,353,982	-	41,225,471	1,606,113
<b>Total Non-Current Assets</b>	<b>25,005,579</b>	<b>426,841</b>	<b>294,365</b>	<b>16,384,930</b>	<b>1,584,703</b>	<b>43,696,418</b>	<b>1,668,056</b>
<b>Total Assets</b>	<b>30,105,883</b>	<b>3,073,868</b>	<b>294,365</b>	<b>18,334,494</b>	<b>1,584,753</b>	<b>53,393,363</b>	<b>2,138,814</b>
<u>Liabilities</u>							
<u>Current Liabilities</u>							
Accrued Wages Payable	41,269	31,173	-	13,337	1,767	87,546	5,683
Accounts Payable	71,636	59,199	13,588	517	32	144,972	49,505
Contracts Payable	27,666	-	-	30,948	361,877	420,491	-
Compensated Absences Payable	62,349	25,483	-	1,730	2,902	92,464	5,467
Due to Other Governments	44,829	46,576	124	38,202	1,929	131,660	8,953
Retainage Payable	-	-	-	-	106,219	106,219	-
Interfund Payable	1,122	46,956	5,338	688	-	54,104	103
Accrued Interest Payable	35,675	-	-	39,770	23,445	98,890	3,447
Notes Payable	3,130,400	-	150,000	2,619,600	3,500,000	9,400,000	-
General Obligation Bonds Payable	312,874	-	-	490,676	-	803,550	48,750
OWDA Loans Payable	1,453,889	-	174,523	-	-	1,628,412	-
OPWC Loans Payable	113,454	-	-	20,587	-	134,041	-
Postclosure Costs Payable	-	-	131,531	-	-	131,531	-
<b>Total Current Liabilities</b>	<b>5,295,163</b>	<b>209,387</b>	<b>475,104</b>	<b>3,256,055</b>	<b>3,998,171</b>	<b>13,233,880</b>	<b>121,908</b>
<u>Non-Current Liabilities</u>							
Compensated Absences Payable	281,042	57,318	-	5,397	24,690	368,447	36,947
General Obligation Bonds Payable	5,115,111	-	-	7,444,089	-	12,559,200	1,180,000
OWDA Loans Payable	14,766,948	-	570,969	-	-	15,337,917	-
OPWC Loans Payable	957,832	-	-	331,136	-	1,288,968	-
Postclosure Costs Payable	-	-	1,953,902	-	-	1,953,902	-
<b>Total Non-Current Liabilities</b>	<b>21,120,933</b>	<b>57,318</b>	<b>2,524,871</b>	<b>7,780,622</b>	<b>24,690</b>	<b>31,508,434</b>	<b>1,216,947</b>
<b>Total Liabilities</b>	<b>26,416,096</b>	<b>266,705</b>	<b>2,999,975</b>	<b>11,036,677</b>	<b>4,022,861</b>	<b>44,742,314</b>	<b>1,338,855</b>
<u>Net Assets</u>							
Invested in Capital Assets, Net of Related Debt	3,766,450	426,841	162,571	7,416,442	-	11,772,304	439,306
Unrestricted (Deficit)	(76,663)	2,380,322	(2,868,181)	(118,625)	(2,438,108)	(3,121,255)	360,653
<b>Total Net Assets (Deficit)</b>	<b>\$ 3,689,787</b>	<b>\$ 2,807,163</b>	<b>\$ (2,705,610)</b>	<b>\$ 7,297,817</b>	<b>\$ (2,438,108)</b>	<b>8,651,049</b>	<b>\$ 799,959</b>

Net assets reported for business-type activities on the statement of net assets is different because it includes a proportionate share of the net assets of the internal service fund.

151,992

Net Assets of Business-Type Activities

\$ 8,803,041

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, 2011**

	Business-Type Activities						Governmental Activities
	Sewer	Sanitation	Landfill	Storm Water	Aquatics Center	Total Enterprise	Internal Service
<u>Operating Revenues</u>							
Charges for Services	\$ 5,777,897	\$ 2,660,450	\$ 207,000	\$ 1,089,014	\$ -	\$ 9,734,361	\$ 938,422
Other	20,572	31,611	925	15,195	207,612	275,915	34,652
<b>Total Operating Revenues</b>	<b>5,798,469</b>	<b>2,692,061</b>	<b>207,925</b>	<b>1,104,209</b>	<b>207,612</b>	<b>10,010,276</b>	<b>973,074</b>
<u>Operating Expenses</u>							
Personal Services	2,134,347	1,218,711	-	1,157,460	31,288	4,541,806	234,534
Travel and Transportation	20	-	-	-	-	20	-
Contractual Services	900,994	812,127	(45,748)	13,569	2,667	1,683,609	71,736
Materials and Supplies	241,119	100,035	-	-	210,976	552,130	492,715
Bad Debt	-	1,210	-	-	-	1,210	-
Depreciation	1,951,113	78,343	-	459,558	-	2,489,014	47,463
Other	48,219	23	-	33,855	-	82,097	-
<b>Total Operating Expenses</b>	<b>5,275,812</b>	<b>2,210,449</b>	<b>(45,748)</b>	<b>1,664,442</b>	<b>244,931</b>	<b>9,349,886</b>	<b>846,448</b>
<b>Operating Income (Loss)</b>	<b>522,657</b>	<b>481,612</b>	<b>253,673</b>	<b>(560,233)</b>	<b>(37,319)</b>	<b>660,390</b>	<b>126,626</b>
<u>Non-Operating Expenses</u>							
Interest Expense	(521,932)	-	(40,489)	(313,816)	(52,593)	(928,830)	(42,230)
Grants	-	-	131,156	-	-	131,156	-
Loss on Disposal of Capital Assets	-	-	-	(322,386)	-	(322,386)	-
<b>Total Non-Operating Expenses</b>	<b>(521,932)</b>	<b>-</b>	<b>90,667</b>	<b>(636,202)</b>	<b>(52,593)</b>	<b>(1,120,060)</b>	<b>(42,230)</b>
<b>Income (Loss) before Contributions and Transfers</b>	<b>725</b>	<b>481,612</b>	<b>344,340</b>	<b>(1,196,435)</b>	<b>(89,912)</b>	<b>(459,670)</b>	<b>84,396</b>
Capital Contributions	1,254,135	1,433	-	739,284	-	1,994,852	-
Transfers Out	(1,528)	-	-	(1,389)	(362,678)	(365,595)	-
<b>Changes in Net Assets</b>	<b>1,253,332</b>	<b>483,045</b>	<b>344,340</b>	<b>(458,540)</b>	<b>(452,590)</b>	<b>1,169,587</b>	<b>84,396</b>
<b>Net Assets (Deficit) Beginning of Year - Restated (Note 3)</b>	<b>2,436,455</b>	<b>2,324,118</b>	<b>(3,049,950)</b>	<b>7,756,357</b>	<b>(1,985,518)</b>		<b>715,563</b>
<b>Net Assets (Deficit) End of Year</b>	<b>\$ 3,689,787</b>	<b>\$ 2,807,163</b>	<b>\$ (2,705,610)</b>	<b>\$ 7,297,817</b>	<b>\$ (2,438,108)</b>		<b>\$ 799,959</b>

The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund.

16,035

Change in Net Assets of Business-Type Activities

\$ 1,185,622

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, 2011**

	Sewer	Sanitation	Landfill	Storm Water	Aquatics Center	Total Enterprise	Governmental Activities Internal Service
Increases (Decreases) in Cash and Cash Equivalents							
<u>Cash Flows from Operating Activities</u>							
Cash Received from Customers	\$ 5,852,614	\$ 2,172,548	\$ 207,000	\$ 1,185,909	\$ -	\$ 9,418,071	\$ 947,221
Cash Payments for Personal Services	(2,206,353)	(1,216,627)	-	(1,128,171)	-	(4,551,151)	(255,745)
Cash Payments for Contractual Services	(844,323)	(772,053)	(79,456)	(224,352)	(213,611)	(2,133,795)	(56,030)
Cash Payments to Vendors	(2,776,126)	(215,456)	(124)	(1,223,424)	-	(4,215,130)	(615,196)
Cash Received from Other Revenues	20,572	31,611	925	15,195	207,612	275,915	32,262
Cash Payments for Other Expenses	(48,103)	(23)	-	(33,855)	-	(81,981)	-
Net Cash Provided by (Used for) Operating Activities	(1,719)	-	128,345	(1,408,698)	(5,999)	(1,288,071)	52,512
<u>Cash Flows from Noncapital Financing Activities</u>							
Grants	-	-	131,156	-	-	131,156	-
Transfers Out	(1,528)	-	-	(1,389)	(207,562)	(210,479)	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(1,528)	-	131,156	(1,389)	(207,562)	(79,323)	-
<u>Cash Flows from Capital and Related Financing Activities</u>							
Capital Contributions	1,401,735	-	-	929,479	-	2,331,214	-
Principal Paid on Bond Anticipation Notes	(3,130,400)	-	(150,000)	(2,619,600)	-	(5,900,000)	-
Principal Paid on General Obligation Bonds	(306,572)	-	-	(481,328)	-	(787,900)	(47,500)
Principal Paid on OWDA Loans	(2,661,858)	-	(298,328)	(703,176)	-	(3,663,362)	-
Principal Paid on OPWC Loans	(110,129)	-	-	(16,836)	-	(126,965)	-
Interest Paid on Bond Anticipation Notes	(50,813)	-	(2,587)	(42,672)	-	(96,072)	-
Interest Paid on General Obligation Bonds	(182,589)	-	-	(264,203)	-	(446,792)	(42,309)
Interest Paid on OWDA Loans	(284,688)	-	(37,902)	-	-	(322,590)	-
Bond Anticipation Notes Issued	3,130,400	-	150,000	2,619,600	-	5,900,000	-
OWDA Loans Issued	1,233,853	-	131,156	703,176	-	2,068,185	-
OPWC Loans Issued	75,087	-	-	92,459	-	167,546	-
Acquisition of Capital Assets	(644,987)	-	-	(855,944)	-	(1,500,931)	-
Net Cash Used for Capital and Related Financing Activities	(1,530,961)	-	(207,661)	(639,045)	-	(2,377,667)	(89,809)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,534,208)	-	51,840	(2,049,132)	(213,561)	(3,745,061)	(37,297)
Cash and Cash Equivalents Beginning of Year	4,015,563	-	79,954	3,356,144	213,611	7,665,272	180,836
Cash and Cash Equivalents End of Year	\$ 2,481,355	\$ -	\$ 131,794	\$ 1,307,012	\$ 50	\$ 3,920,211	\$ 143,539
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>							
Operating Income (Loss)	\$ 522,657	\$ 481,612	\$ 253,673	\$ (560,233)	\$ (37,319)	\$ 660,390	\$ 126,626
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>							
Depreciation	1,951,113	78,343	-	459,558	-	2,489,014	47,463
Changes in Assets and Liabilities:							
(Increase) Decrease in Accounts Receivable	(33,175)	(522,415)	-	96,895	-	(458,695)	(2,390)
Decrease in Interfund Receivable	72,285	-	-	-	-	72,285	8,799
Decrease in Prepaid Items	25,020	6,116	-	2,118	-	33,254	2,157
Increase in Materials and Supplies Inventory	(13,564)	(276)	-	(285)	-	(14,125)	(122,954)
Increase (Decrease) in Accrued Wages Payable	(3,274)	4,283	-	3,665	1,767	6,441	(1,762)
Increase (Decrease) in Accounts Payable	4,596	29,824	9,213	(25,459)	32	18,206	14,346
Decrease in Contracts Payable	(2,285,256)	-	(10,726)	(1,319,452)	-	(3,615,434)	-
Increase (Decrease) in Due to Other Governments	(23,717)	10,698	(124)	24,109	1,929	12,895	(1,124)
Decrease in Retainage Payable	(165,638)	-	-	(90,193)	-	(255,831)	-
Increase (Decrease) Interfund Payable	(9,214)	(74,955)	5,338	(472)	-	(79,303)	103
Increase (Decrease) in Compensated Absences Payable	(43,552)	(13,230)	-	1,051	27,592	(28,139)	(18,752)
Decrease in Postclosure Costs Payable	-	-	(129,029)	-	-	(129,029)	-
Net Cash Provided by (Used for) Operating Activities	\$ (1,719)	\$ -	\$ 128,345	\$ (1,408,698)	\$ (5,999)	\$ (1,288,071)	\$ 52,512
<u>Non-Cash Capital Financing Activities</u>							

During 2011, the Sewer, Sanitation, and Storm Water enterprise funds received capital assets from other governmental funds, in the amount of \$1,433, \$1,433, and \$1,433, respectively.

CITY OF MARION  
MARION COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
DECEMBER 31, 2011

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 57,111
Cash and Cash Equivalents in Segregated Accounts	<u>47,751</u>
Total Assets	<u><u>104,862</u></u>
<u>Liabilities</u>	
Due to External Parties	1,106
Undistributed Assets	<u>103,756</u>
Total Liabilities	<u><u>\$ 104,862</u></u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

**A. The City**

The City of Marion is a statutory municipal corporation established and operated under the laws of the State of Ohio. Marion was incorporated as a city in 1890.

The City operates under a mayor-council form of government. Legislative power is vested in a nine-member 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 of the City. All City officials, with the exception of the Safety Director and Service Director, are elected positions. The Safety Director and Service Director are appointed by the Mayor.

The City 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, recycling, and sanitation, 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**

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City of Marion consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Marion in 2011.

The City participates in two insurance pools, the Ohio Municipal Joint Self-Insurance Pool and the Ohio Rural Water Association Workers' Compensation Group Rating Plan, and two jointly-governed organizations, the Marion County General Health District and the Marion Port Authority. These organizations are presented in Notes 22 and 23 to the basic financial statements.

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

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

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

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 a more detailed level of financial information.

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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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 earned that is required to be used to support a particular program. Revenues which 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. The internal service fund is presented in a single column on the proprietary fund financial statements. 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  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 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 Construction, Maintenance, and Repair Fund - This fund accounts for 92.5 percent of the state gasoline tax and motor vehicle registration fees as well as .05 percent voted municipal income tax restricted for maintenance and repair of streets within the City.

The other governmental funds of the City account for grants and other resources whose use is restricted, committed, or assigned for a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, change in net assets, financial position, and cash flows. The City reports two types of proprietary funds, enterprise and internal service:

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 - The Sewer Fund accounts for the provision of wastewater treatment service to residential and commercial users within the City.

Sanitation Fund - The Sanitation Fund accounts for garbage collection and recycling services to residential and commercial users within the City.

Landfill Fund - The Landfill Fund accounts for the ongoing postclosure activities at the landfill which closed in 1995.

Storm Water Fund - The Storm Water Fund accounts for the operation of the storm water runoff system within the City.

Aquatics Center - The Aquatics Center Fund accounts for the operations of the City Aquatics Center.

Internal Service Fund - The internal service fund accounts for the City's central garage which provides for vehicle maintenance provided to departments of the City.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

B. Fund Accounting (Continued)

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 2011. 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 employee payroll withholdings and deductions, for insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished, fines and fees collected by the Marion Municipal Court (excluding those due to the City of Marion), and fines collected by the City for traffic and parking violations distributed to other parties.

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 financial 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 fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., 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.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

D. Basis of Accounting (Continued)

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 thirty-one days after year end.

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

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 fees), 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, 2011, but were levied to finance 2012 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.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

E. Budgetary Process

All funds, except agency funds, are required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, 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 ordinance is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund, department, and object level for all funds.

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 final amended certificate of estimated resources requested by the City prior to year end.

The appropriations ordinance 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 appropriations ordinance 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 within departments of the City are recorded as "Cash and Cash Equivalents in Segregated Accounts".

During 2011, investments included negotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. Investments are reported at fair value, which is based on quoted market price or current share price. 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 net asset value per share, which is the price the investment could be sold for on December 31, 2011.

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 2011 was \$174,044, which includes \$160,302 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  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, 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. Inventory

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

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Monies required to be set aside for postclosure costs at the landfill are reported as restricted.

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 in 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 enterprise funds are reported in both the business-type activities column on the government-wide statement of net assets and in the respective funds. Capital assets used by the internal service fund are reported in both the governmental activities column on the government-wide statement of net assets and in the fund.

All capital assets are capitalized at 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 fifteen thousand 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 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. The City reports all infrastructure, including that acquired prior to 1980. Depreciation is computed using the straight-line method over the following useful lives:

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

J. Capital Assets (Continued)

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	20-50 years	20 years
Buildings and Building Improvements	10-100 years	15-75 years
Equipment	5-40 years	8-50 years
Vehicles	5-30 years	5-15 years
Streets	10-40 years	N/A
Sewer and Storm Water Lines	N/A	50 years

K. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from 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 statement of net assets are those between governmental and business-type activities. These amounts are reflected 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 the City has identified as probable of receiving paying in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in City policies or by union contracts. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences 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. General obligation bonds, long-term loans, and capital leases 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 by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for maintenance and repair of State highways, various economic development related grants, the transit system, and a number of law enforcement grants. 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

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term portion of interfund receivables.

Restricted - The restricted classification includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means the City can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for purposes specified by the legislation.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

O. Fund Balance (Continued)

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of City Council. The committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or by a City official delegated that authority by ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

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, sanitation, and storm water, charges for anticipated postclosure costs in the landfill, admission charges for the Aquatics Center, and charges for vehicle maintenance in the internal service fund. 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 nonoperating.

Q. Capital Contributions

Capital contributions arise from contributions from other funds and outside sources.

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.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

**R. Interfund Transactions (Continued)**

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 nonoperating 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. Estimates**

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

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPALS AND RESTATEMENT OF FUND BALANCE/NET ASSETS**

For 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned.

In addition, the City did not accurately report capital assets and accumulated depreciation in the prior year.

The restatement due to the implementation of GASB Statement No. 54 and the adjustment for capital assets had the following effect on fund balance of the major and nonmajor funds of the City as they were previously reported.

	<u>General</u>	<u>Street Construction, Maintenance, and Repair</u>	<u>Other Governmental</u>	<u>Total Governmental Activities</u>
Fund Balance at December 31, 2010	(\$1,421,555)	\$776,094	\$5,804,536	\$5,159,075
Change in Fund Structure	596,349	0	(825,069)	(228,720)
Adjusted Fund Balance at December 31, 2010	<u>(\$825,206)</u>	<u>\$776,094</u>	<u>\$4,979,467</u>	<u>\$4,930,355</u>

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPALS AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)**

The restatement had the following effect on net assets.

	Sewer	Sanitation	Landfill	Storm Sewer	Aquatics Center	Internal Service
Net Assets at December 31, 2010	\$2,436,455	\$2,324,118	(\$3,049,950)	\$7,756,357	\$0	\$715,563
Change in Fund Structure	0	0	0	0	213,611	0
Capital Assets	0	0	0	0	213,611	0
Notes Payable	0	0	0	0	(2,400,000)	0
Accrued Interest	0	0	0	0	(12,740)	0
Adjusted Net Assets at December 31, 2010	<u>\$2,436,455</u>	<u>\$2,324,118</u>	<u>(\$3,049,950)</u>	<u>\$7,756,357</u>	<u>(\$1,985,518)</u>	<u>\$715,563</u>

	Total Governmental Activities	Total Business-Type Activities
Net Assets at December 31, 2010	\$53,090,334	\$9,602,937
Change in Fund Structure	(228,720)	213,611
Capital Assets	75,929,085	213,611
Accumulated Depreciation	(56,946,870)	0
Notes Payable	2,400,000	(2,400,000)
Accrued Interest	12,740	(12,740)
Adjusted Net Assets at December 31, 2010	<u>\$74,256,569</u>	<u>\$7,617,419</u>

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

At December 31, 2011 the following funds had deficit fund balances/net assets:

<u>Fund Type/Fund</u>	<u>Deficit</u>
Major Fund	
General Fund	\$1,122,640
Nonmajor Special Revenue Funds	
State Highway	4,979
Violence Against Women	26,321
School Resource Officer	27,659
Police and Fire Pension	102,260
COPS Grant	2,878
Community Distress	19,015
Marion Area Transit	83,230
Nonmajor Capital Project Funds	
Harding Centre Loan	5,364
Airport Improvement	20,853
Street Improvement	250,000
Enterprise Funds	
Landfill	2,705,610
Aquatics Center	2,438,108

The deficit fund balances in the General Fund and the special revenue and capital project funds resulted from adjustments for accrued liabilities.

The deficit net assets in the Landfill enterprise fund resulted from the requirement to report future postclosure costs. The City is setting aside resources to pay these future costs as they come due. The deficit net assets in the Aquatics Center enterprise fund is due to the facility not yet being operational. The facility did not open for admissions until 2012.

**B. Compliance**

For the year ended December 31, 2011, the General Fund and the Marion Area Transit special revenue fund had final appropriations in excess of estimated resources plus available balances, in the amount of \$671,366, and \$81, respectively.

The General fund and the Street Construction, Maintenance, and Repair special revenue fund had original appropriations in excess of estimated resources plus available balances, in the amount of \$143,726 and \$555,017, respectively.

The Auditor will review appropriations to ensure they are within amounts available.

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)**

B. Compliance (Continued)

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2011.

Fund Program/Department/Object	Appropriations	Expenditures Plus Encumbrances	Excess
<b>General Fund</b>			
General Government - Other			
City Auditor			
Contractual Services	\$24,685	\$25,403	\$718
Transportation – Other			
Airport			
Materials and Supplies	1,156	5,740	4,584
<b>Special Revenue Funds</b>			
Clean Ohio Grant			
Community Environment			
Contractual Services	1,025,812	1,636,835	611,023
Debt Service			
Interest and Fiscal Charges	70,762	70,793	31
<b>Enterprise Funds</b>			
Sewer			
Sewer Revenue			
Contractual Services	681,738	681,796	58
Debt Service			
Principal Retirement	4,975,106	6,208,959	1,233,853
Sanitation			
Sanitation			
Contractual Services	767,457	767,515	58
Other	(836)	23	859
Landfill			
Debt Service			
Principal Retirement	317,172	448,328	131,156
Storm Water			
Storm Water Utility			
Contractual Services	124,342	124,400	58
Debt Service			
Principal Retirement	3,117,764	3,820,940	703,176

The Auditor will monitor budgetary transactions to ensure expenditures are within amounts appropriated.

At December 31, 2011, the General fund, the Street Construction, Maintenance, and Repair; State Highway; COPS Grant; and Marion Area Transit special revenue funds and the Sanitation enterprise fund had deficit cash balances, in the amount of \$155,801, \$14,983, \$11,580, \$46,694, \$62,260, and \$35,723, respectively.



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual - for the General Fund and the Street Construction, Maintenance, and Repair special revenue fund 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 restricted, committed, or assigned 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:

Changes in Fund Balance

	General	Street Construction, Maintenance, and Repair
GAAP Basis	(\$297,434)	(\$114,882)
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2010, Received in Cash 2011	1,018,315	133,110
Accrued 2011, Not Yet Received in Cash	(2,302,906)	588,592
Expenditure Accruals:		
Accrued 2010, Paid in Cash 2011	(1,607,423)	(575,675)
Accrued 2011, Not Yet Paid in Cash	1,677,519	744,169

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

Changes in Fund Balance

	General	Street Construction, Maintenance, and Repair
Cash Adjustments:		
Unrecorded Activity 2010	\$69,848	\$0
Unrecorded Activity 2011	(61,756)	0
Prepaid Items	58,669	5,652
Materials and Supplies Inventory	(1,847)	(76,401)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses into Financial Statement		
Fund Types	318,430	
Advances In	31,000	0
Transfers In	0	(709,951)
Transfer Out	793,650	0
Budget Basis	(\$303,935)	(\$5,386)

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation 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, Government 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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.

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,476,661 of the City's bank balance of \$2,643,102 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of December 31, 2011, the City had the following investments:

	<u>Total</u>	<u>Less Than Six Months</u>	<u>Six Months to One Year</u>	<u>One Year to Two Years</u>	<u>More Than Two Years</u>
Negotiable Certificates of Deposit	\$2,759,905	\$500,460	\$655,554	\$1,104,690	\$499,201
Federal Home Loan Bank Notes	150,341	0	0	0	150,341
Federal National Mortgage Association Notes	1,000,420	0	0	0	1,000,420
Federal Home Loan Mortgage Corporation Notes	1,002,690	0	0	0	1,002,690
Mutual Funds	1,818,831	1,818,831	0	0	0
STAR Ohio	213,161	213,161	0	0	0
<b>Total</b>	<b><u>\$6,945,348</u></b>	<b><u>\$2,532,452</u></b>	<b><u>\$655,554</u></b>	<b><u>\$1,104,690</u></b>	<b><u>\$2,652,652</u></b>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the City from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the City.

The negotiable certificates of deposit are insured by the FDIC. The federal agency securities and the mutual funds carry a rating of Aaa by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

The City places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of investments to the City's total portfolio:

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Negotiable Certificates of Deposit	\$2,759,905	39.74%
Federal Home Loan Bank	150,341	2.16
Federal National Mortgage Association	1,000,420	14.40
Federal Home Loan Mortgage Corporation	1,002,690	14.44

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 7 - RECEIVABLES**

Receivables at December 31, 2011, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; interfund; due from external parties; property taxes; payment in lieu of taxes, and notes. Receivables are considered collectible in full and within one year, except for municipal income taxes, interfund, property taxes, notes, and the allowance for uncollectibles related to utility services. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$972,011 will not be received within one year.

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant program. The notes have an annual interest rate of 2 percent to 3 percent and are to be repaid over periods ranging from ten to thirty years. A summary of the changes in notes receivable during 2011 follows:

	Balance December 31, 2010	New Loans	Repayments	Balance December 31, 2011
Special Revenue Fund				
CDBG Revolving Loan	\$707,911	\$0	\$2,038	\$705,873
Capital Projects Fund				
Harding Centre Loan	333,674	0	31,877	301,797
	<u>\$1,041,585</u>	<u>\$0</u>	<u>\$33,915</u>	<u>\$1,007,670</u>

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

	Sewer	Sanitation	Storm Water	Total Enterprise Funds
Accounts Receivable	\$2,461,899	\$4,288,346	\$641,087	\$7,391,332
Less Allowance for Uncollectibles	0	1,645,002	0	1,645,002
Net Accounts Receivable	<u>\$2,461,899</u>	<u>\$2,643,344</u>	<u>\$641,087</u>	<u>\$5,746,330</u>

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$83,978
Local Government	487,107
Cigarette Tax	600
Estate Tax	242,789
Bullet Proof Vest Grant	3,438
Total General Fund	<u>817,912</u>
	(continued)

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 7 - RECEIVABLES (Continued)**

	Amount
Governmental Activities (continued)	
Major Funds (continued)	
Street Construction, Maintenance, and Repair	
Gasoline Tax	\$504,808
Motor Vehicle License Tax	121,240
Total Street Construction, Maintenance, and Repair	626,048
Total Major Funds	1,443,960
Nonmajor Funds	
ARRA	3,357
State Highway	
Gasoline Tax	40,931
Muni Court Docket Specialist	
Muni Court Docket Specialist	2,474
Violence Against Women	
Violence Against Women	14,048
Community Corrections	
Community Based Corrections	83,694
Police and Fire Pension	
Homestead and Rollback	15,224
COPS Grant	
COPS Grant	46,694
Marion Area Transit	
Rural Transit Grant	46,921
Tri-Rivers JVS	371
Total Marion Area Transit	47,292
Street Improvement	
Ohio Public Works Commission	250,000
Total Nonmajor Funds	503,714
Total Governmental Activities	\$1,947,674

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 8 - MUNICIPAL INCOME TAXES**

The City levies an income tax of 1.75 percent on all income earned within the City as well as on income 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 revenue is credited to the General Fund; the Street Construction, Maintenance, and Repair special revenue fund, and the Capital Improvements capital projects fund, in the amount of 1.65 percent, .05 percent, and .05 percent, respectively.

**NOTE 9 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2011 represent the collection of 2010 taxes. Real property taxes received in 2011 were levied after October 1, 2010, on the assessed values as of January 1, 2010, 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 2011 represent the collection of 2010 taxes. Public utility real and tangible personal property taxes received in 2011 became a lien on December 31, 2009, were levied after October 1, 2010, 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.

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 and public utility property taxes which were measurable as of December 31, 2011, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder has been deferred.

The full tax rate applied to real property for the year ended December 31, 2011, per taxing district, per \$1,000 of assessed valuation are as follows:

Marion City School District	\$3.60
Elgin Local School District	2.60
Pleasant Local School District	0.90
River Valley Local School District	2.70
Ridgedale Local School District	1.40

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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

The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$273,732,270
Commercial/Industrial	77,648,800
Public Utility Real	154,400
Public Utility Personal	21,945,680
Total	\$373,481,150

**NOTE 10 - PAYMENT IN LIEU OF TAXES**

According to State law, the City has entered into agreements with a number of property owners under which the City has granted property tax exemptions to those property owners. The property owners have agreed to make payments to the City which reflect all or a portion of the property taxes which the property owners would have paid if the taxes had not been exempted. The property owners contractually promise to make these payments in lieu of taxes until the agreement expires.

**NOTE 11 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Restated Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$8,703,039	\$0	\$0	\$8,703,039
Construction in Progress	1,901,233	751,472	(1,885,155)	767,550
Total Nondepreciable Capital Assets	10,604,272	751,472	(1,885,155)	9,470,589
Depreciable Capital Assets				
Land Improvements	287,301	1,622,463	0	1,909,764
Buildings and Building Improvements	25,017,389	67,372	0	25,084,761
Equipment	2,453,935	0	0	2,453,935
Vehicles	4,852,940	324,045	0	5,176,985
Streets	136,986,989	262,692	0	137,249,681
Total Depreciable Capital Assets	169,598,554	2,276,572	0	171,875,126

(continued)



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 11 - CAPITAL ASSETS (Continued)**

	Restated Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
<b>Governmental Activities (continued):</b>				
Less Accumulated Depreciation for				
Land Improvements	(\$166,035)	(\$11,115)	\$0	(\$177,150)
Buildings and Building Improvements	(4,528,565)	(375,065)	0	(4,903,630)
Equipment	(918,831)	(167,816)	0	(1,086,647)
Vehicles	(2,090,736)	(284,380)	0	(2,375,116)
Streets	(97,760,879)	(3,993,393)	0	(101,754,272)
Total Accumulated Depreciation	<u>(105,465,046)</u>	<u>(4,831,769)</u>	<u>0</u>	<u>(110,296,815)</u>
Total Depreciable Capital Assets, Net	<u>64,133,508</u>	<u>(2,555,197)</u>	<u>0</u>	<u>61,578,311</u>
Governmental Activities Capital Assets, Net	<u>\$74,737,780</u>	<u>(\$1,803,725)</u>	<u>(\$1,885,155)</u>	<u>\$71,048,900</u>
	Restated Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
<b>Business-Type Activities:</b>				
Nondepreciable Capital Assets				
Land	\$699,886	\$0	\$0	\$699,886
Construction in Progress	2,480,565	2,926,587	(3,767,885)	1,639,267
Total Nondepreciable Capital Assets	<u>3,180,451</u>	<u>2,926,587</u>	<u>(3,767,885)</u>	<u>2,339,153</u>
Depreciable Capital Assets				
Land Improvements	96,191	0	0	96,191
Buildings	24,072,457	4,299	0	24,076,756
Equipment	4,614,642	0	0	4,614,642
Vehicles	1,568,258	0	0	1,568,258
Sewer and Storm Water Lines	36,081,852	3,767,885	(485,706)	39,364,031
Total Depreciable Capital Assets	<u>66,433,400</u>	<u>3,772,184</u>	<u>(485,706)</u>	<u>69,719,878</u>
Less Accumulated Depreciation for				
Land Improvements	(53,872)	(3,848)	0	(57,720)
Buildings	(8,241,634)	(1,579,053)	0	(9,820,687)
Equipment	(2,664,644)	(182,149)	0	(2,846,793)
Vehicles	(1,046,554)	(95,269)	0	(1,141,823)
Sewer and Storm Water Lines	(14,162,009)	(628,695)	163,320	(14,627,384)
Total Accumulated Depreciation	<u>(26,168,713)</u>	<u>(2,489,014)</u>	<u>163,320</u>	<u>(28,494,407)</u>
Total Depreciable Capital Assets, Net	<u>40,264,687</u>	<u>1,283,170</u>	<u>(322,386)</u>	<u>41,225,471</u>
Business-Type Activities Capital Assets, Net	<u>\$43,445,138</u>	<u>\$4,209,757</u>	<u>(\$4,090,271)</u>	<u>\$43,564,624</u>

During 2011, the Sewer, Sanitation, and Storm Water enterprise funds received capital assets from other governmental funds, in the amount of \$1,433, \$1,433, and \$1,433, respectively.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 11 - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$126,658
Security of Persons and Property - Fire	93,484
Public Health	318
Leisure Time Activities	44,706
Transportation – Transit	53,469
Transportation – Other	4,144,797
General Government – Court	9,359
General Government – Other	358,978
Total Depreciation Expense - Governmental Activities	\$4,831,769

**NOTE 12 - INTERFUND RECEIVABLES/PAYABLES**

Interfund balances at December 31, 2011, consisted of the following individual fund receivables and payables:

Due to General Fund from:

Street, Construction, Maintenance, and Repair	\$14,983
Other Governmental	567,269
Total General Fund	\$582,252

Due to Street Construction, Maintenance, and Repair Fund from:

General	\$1,139,726
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Due to Other Governmental Funds from:

General	\$304,667
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Due to Sewer Fund from:

General	\$128
Sanitation	35,723
Landfill	5,338
Internal Service	103
Total Sewer Fund	\$41,292

(continued)

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 12 - INTERFUND RECEIVABLES/PAYABLES (Continued)**

Due to Internal Service Fund from:

General	\$23,341
Street Construction, Maintenance, and Repair	12,913
Other Governmental	29,983
Sewer	1,122
Sanitation	11,233
Storm Water	688
Total Internal Service Fund	\$79,280

The balance due to the General Fund consists of loans made to provide working capital for operations or projects. With the exception of \$281,000, all of this amount is expected to be received within one year.

The amount due to the Street Construction, Maintenance, and Repair Fund was for misallocated income tax revenue provided to the General Fund. None of this amount is expected to be received within one year.

The amount due to the other governmental funds was for services provided and misallocated income tax revenue provided to the General Fund. None of this amount is expected to be received within one year.

The amount due to the Sewer Fund resulted from services provided. This amount is expected to be received within one year.

The amount due to the Internal Service Fund resulted from services provided. This amount is expected to be received within one year.

**NOTE 13 - RISK MANAGEMENT**

The City participates in the Ohio Municipal Joint Self-Insurance Pool, a public entity shared risk pool. The City pays an annual premium to the pool for various types of insurance coverage. Member municipalities agree to share in the coverage of losses and pay all premiums necessary for the specified insurance coverage. Upon withdrawal from the Pool, a participant is responsible for the payment of all liabilities accruing as a result of withdrawal. During 2011, the City had the following insurance coverage:

Type of Coverage	Coverage	Deductible
Property	\$50,219,297	\$1,000
General Liability		
Aggregate	5,000,000	5,000
Law Enforcement Liability	5,000,000	10,000
Emergency Medical Services Liability	5,000,000	5,000
Employee Benefits Liability	1,000,000	5,000
Automobile Liability	5,000,000	0
Uninsured Motorists	40,000	0

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 13 - RISK MANAGEMENT (Continued)**

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has not been any significant reduction in coverage from the prior year.

For 2011, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan. To maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the Plan. Each year, the City pays an enrollment fee to the Plan to cover the costs of administering the program.

The City may withdraw from the plan if written notice is provided sixty days prior to the prescribed application deadline to the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal, and any participant leaving the Plan allows representatives of the Plan to access loss experience for three years following the last year of participation.

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 14 - DEFINED BENEFIT PENSION PLANS (Continued)**

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in the traditional plan was 4 percent for 2011. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010, and 2009 was \$1,040,113, \$987,965, and \$1,109,328, respectively. For 2011, 86 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$23,068 made by the City and \$16,477 made by the plan members.

**B. Ohio Police and Fire Pension Fund**

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan. OPF 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. OPF issues a publicly available financial that includes financial information and required supplementary information for the plan. The report that may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2011, the portion of the City's contribution used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contribution to OPF for police and firefighters pension was \$724,040 and \$654,610 for the year ended December 31, 2011, \$789,864 and \$781,941 for the year ended December 31, 2010, and \$754,250 and \$751,111, for the year ended December 31, 2009. For 2011, 77 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in the traditional plan was 4 percent for 2011. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent in 2011.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 15 - POSTEMPLOYMENT BENEFITS (Continued)**

**A. Ohio Public Employees Retirement System (Continued)**

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2011, 2010, and 2009 was \$263,055, \$360,553, and \$455,461, respectively. For 2011, 86 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS retirement board on September 9, 2004, was effective January 1, 2007. Member and employer contributions rates increased on January 1 of each year from 2006 to 2008. Rates for public safety and law enforcement employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

**B. Police and Fire Pension Fund**

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored healthcare program, a cost-sharing, multiple-employer defined postemployment healthcare plan administered by OPF. OPF provides healthcare benefits including coverage for medical, prescription drug, dental, vision, Medicare Part B Premium, and long-term care to retirees, qualifying benefit recipients, and their eligible dependents.

OPF provides access to postretirement healthcare coverage for 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. The healthcare coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

OPF maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B premium reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan under the authority granted by the Ohio Revised Code to the OPF Board of Trustees.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 15 - POSTEMPLOYMENT BENEFITS (Continued)**

**B. Police and Fire Pension Fund (Continued)**

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2011, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters was \$229,989 and \$207,935 for the year ended December 31, 2011, \$250,898 and \$227,015 for the year ended December 31, 2010, and \$239,585 and \$218,065 for the year ended December 31, 2009. For 2011, 77 percent has been contributed for both police and or firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

**NOTE 16 - 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 upon length of service and standard work week. 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. Upon retirement, employees are entitled to the value of their accumulated unused sick leave at varying percentages to a maximum of ninety to one hundred twelve and one-half days based on City policy and union contracts.

**B. Separation Benefits**

The City offered a special termination benefit to firefighters in the International Association of Firefighters (IAFF) Local 379. The employee must have been eligible to retire under the appropriate retirement system. Eligible employees receive one year base salary multiplied by current rate of pay. The payment is made over five years. As of December 31, 2011, the liability for special termination benefits was \$341,762.



**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
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**NOTE 17 - NOTES PAYABLE**

The changes in the City's notes payable during 2011 were as follows:

	Interest Rate	Restated Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
<u>Business-Type Activities</u>					
<u>General Obligation Bond Anticipation Notes</u>					
2010 Various Purpose	1.25%	\$8,300,000	\$0	\$8,300,000	\$0
2011 Various Purpose	1.50	0	10,500,000	1,100,000	9,400,000
Total Business-Type Activities		<u>\$8,300,000</u>	<u>\$10,500,000</u>	<u>\$9,400,000</u>	<u>\$9,400,000</u>

According to Ohio law, notes may be issued in anticipation of bond proceeds or for up to 50 percent of anticipated revenue collections.

On July 29, 2010, the City issued \$8,300,000 in bond anticipation notes; \$3,130,400 for sewer improvements, \$2,619,600 for storm water improvements, \$150,000 for landfill improvements, and \$2,400,000 for the construction of an Aquatics Center.

On July 21, 2011, the City issued \$10,500,000 in bond anticipation notes to retire notes previously issued and for additional construction; \$3,130,400 for sewer improvements, \$2,619,600 for storm water improvements, \$150,000 for landfill improvements, and \$4,600,000 for the construction of an Aquatics Center. As of December 31, 2011, the City had unspent proceeds of \$1,462,400 in the Sewer Fund, \$1,937,600 in the Storm Water Fund, and \$1,915,297 in the Aquatics Center Fund. The \$150,000 for the landfill was spent on items which were not capitalized.

**NOTE 18 - LONG-TERM OBLIGATIONS**

The City's long-term obligations activity for the year ended December 31, 2011, was as follows:

	Interest Rate	Restated Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
<u>Governmental Activities</u>						
<u>Bond Anticipation Notes</u>						
2010B Various Purpose	2.25%	\$250,000	\$0	\$250,000	\$0	\$0
Total Bond Anticipation Notes		<u>250,000</u>	<u>0</u>	<u>250,000</u>	<u>0</u>	<u>0</u>
<u>General Obligation Bonds</u>						
2010 Police and Fire Pension Refunding (Original Amount \$794,300)	2-4.3	736,450	0	66,300	670,150	66,950
2010 Street Improvement (Original Amount \$1,598,850)	2-4.3	1,513,050	0	56,100	1,456,950	57,750

(continued)

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 18 - LONG-TERM OBLIGATIONS (Continued)**

	Interest Rate	Restated Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
<u>Governmental Activities (continued)</u>						
General Obligation Bonds (continued)						
2010 Computer Equipment (Original Amount \$775,200)	2-4.3%	\$733,600	\$0	\$27,200	\$706,400	\$28,000
2010 City Hall Roof (Original Amount \$110,000)	2-3.75	110,000	0	5,000	105,000	5,000
2010 Generator (Original Amount \$225,000)	2-3.75	225,000	0	10,000	215,000	10,000
2010 Fire Truck (Original Amount \$320,000)	2-3.75	320,000	0	30,000	290,000	30,000
2010 Police Records (Original Amount \$355,000)	2-3.75	355,000	0	30,000	325,000	35,000
2010 Central Garage (Original Amount \$1,376,250)	1.75-4	1,276,250	0	47,500	1,228,750	48,750
<b>Total General Obligation Bonds</b>		<b>5,269,350</b>	<b>0</b>	<b>272,100</b>	<b>4,997,250</b>	<b>281,450</b>
Other Long-Term Obligations						
ODOT DRIP TIF (Original Amount \$2,105,884)	0.00	683,602	0	76,124	607,478	78,619
OPWC Loan #CP10D Marion Williamsport Road Improvements (Original Amount \$128,202)	0.00	76,922	0	6,410	70,512	6,410
Capital Loans Payable		304,164	0	76,919	227,245	79,899
Compensated Absences Payable		4,475,713	0	430,670	4,045,043	538,160
<b>Total Other Long-Term Obligations</b>		<b>5,540,401</b>	<b>0</b>	<b>590,123</b>	<b>4,950,278</b>	<b>703,088</b>
<b>Total Governmental Activities</b>		<b>\$11,059,751</b>	<b>\$0</b>	<b>\$1,112,223</b>	<b>\$9,947,528</b>	<b>\$984,538</b>
<u>Business-Type Activities</u>						
General Obligation Bonds						
2010 Various Purpose A (Original Amount \$5,892,550)	2-4.3%	\$7,266,900	\$0	\$530,400	\$6,736,500	\$537,300
2010 Various Purpose B (Original Amount \$7,183,750)	1.75-4	6,883,750	0	257,500	6,626,250	266,250
<b>Total General Obligation Bonds</b>		<b>14,150,650</b>	<b>0</b>	<b>787,900</b>	<b>13,362,750</b>	<b>803,550</b>

(continued)

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 18 - LONG-TERM OBLIGATIONS (Continued)**

	Interest Rate	Restated Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
<u>Business-Type Activities (continued)</u>						
Other Long-Term Obligations						
OWDA Loans						
#2335 Solids Handling (Original Amount \$2,290,314)	4.56%	\$861,276	\$0	\$141,139	\$720,137	\$147,648
#2336 Landfill Closure (Original Amount \$2,720,754)	4.35	912,664	0	167,172	745,492	174,523
#3397 WRRSP (Original Amount \$5,366,955)	1.50	3,410,407	0	261,428	3,148,979	265,364
#3398 WWTP Upgrade (Original Amount \$20,784,201)	1.50	13,377,159		1,025,438	12,351,721	1,040,877
#5540 Columbia Street Lining (Original Amount \$685,422)	0.00	0	685,422	685,422	0	0
#5542 Marion Plaza (Original Amount \$147,327)	0.00	0	147,327	147,327	0	0
#5543 Landfill Leachate (Original Amount \$131,156)	0.00	0	131,156	131,156	0	0
#5544 West Center Street (Original Amount \$826,066)	0.00	0	826,066	826,066	0	0
#5545 Blain Avenue (Original Amount \$278,214)	0.00	0	278,214	278,214	0	0
<b>Total OWDA Loans</b>		<b>18,561,506</b>	<b>2,068,185</b>	<b>3,663,362</b>	<b>16,966,329</b>	<b>1,628,412</b>
OPWC Loans						
#CP06G Mary St Sanitary Sewer/Storm Water Replacement (Original Amount \$29,232)	0.00	21,923	0	1,462	20,461	1,462
#CP10F Uncapher Ave/ Florence St Sanitary Sewer/ Storm Water Replacement (Original Amount \$268,990)	0.00	174,846	0	13,449	161,397	13,449
#CP16E Avondale Ave/ Catalina Dr Storm Water (Original Amount \$119,185)	0.00	68,531	0	5,960	62,571	5,960
#CP18A Industrial Depot Sanitary Sewer (Original Amount \$157,168)	0.00	41,911	0	10,478	31,433	10,478

(continued)

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 18 - LONG-TERM OBLIGATIONS (Continued)**

	Interest Rate	Restated Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
<u>Business-Type Activities (continued)</u>						
Other Long-Term Obligations (continued)						
OPWC Loans (continued)						
#CP33E Water Pollution Control Upgrade						
(Original Amount \$1,070,800)	0.00%	\$722,790	\$0	\$53,540	\$669,250	\$53,540
#CP522 Airport Industrial Park Sanitary Sewer						
(Original Amount \$700,000)	0.00	140,000	0	35,000	105,000	35,000
#CP14L Franconia Avenue Sanitary Sewer and Storm Water Replacement						
(Original Amount \$107,827)	0.00	96,838	10,989	1,797	106,030	3,594
#CP05K Oakgrove and Waterloo Sanitary Sewer and Storm Water Replacement						
(Original Amount \$211,153)	0.00	115,589	95,564	5,279	205,874	10,558
#CP04M Woodrow and Henry Sanitary Sewer and Storm Water Replacement						
(Original Amount \$60,993)	0.00	0	60,993	0	60,993	0
Total OPWC Loans		1,382,428	167,546	126,965	1,423,009	134,041
Compensated Absences Payable		\$489,050	\$129,828	\$157,967	\$460,911	\$92,464
Postclosure Costs Payable		2,214,462	0	129,029	2,085,433	131,531
Total Other Long-Term Obligations		22,647,446	2,365,559	4,077,323	20,935,682	1,986,448
Total Business-Type Activities		\$36,798,096	\$2,365,559	\$4,865,223	\$34,298,432	\$2,789,998

**Bond Anticipation Notes**

On October 13, 2010, the City issued bond anticipation notes, in the amount of \$250,000 to retire notes previously issued for installing a new phone system in the City Building. The notes had an interest rate of 2.25 percent and matured on July 21, 2011.

**General Obligation Bonds**

On June 9, 2010, the City issued general obligation refunding bonds, in the amount of \$6,110,000, to refund general obligation bonds previously issued in 2000 to pay the long-term liability to the Police and Fire Pension System and to construct and replace sewer and storm water lines. The bonds were issued for a ten year period, with final maturity in 2020. The bonds will be retired through the Bond Retirement debt service fund and the Sewer and Storm Water enterprise funds.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 18 - LONG-TERM OBLIGATIONS (Continued)**

On June 9, 2010, the City issued unvoted general obligation bonds, in the amount of \$4,845,000; \$708,483 to retire notes previously issued for constructing public infrastructure improvements related to constructing a portion of Wellness Drive, \$485,655 for constructing public infrastructure improvements related to constructing and extending Lakes Boulevard, \$404,712 for improving Barks Road between Delaware Avenue and State Route 529, \$775,200 for acquiring and installing a comprehensive financial management software system, \$1,884,922 for sewer and storm water improvements on Blaine Avenue, and \$586,028 for sewer and storm water improvements on Forest Lawn Boulevard. The bonds were issued for a twenty year period with final maturity in 2030. The bonds will be paid from the Bond Retirement debt service fund and from the Sewer and Storm Water enterprise funds.

As of December 31, 2011, all of the proceeds had been spent and \$370,860 was spent on items which were not capitalized.

The bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2021	\$225,000

The remaining principal, in the amount of \$235,000, will be paid at stated maturity on December 1, 2022.

The bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2023	\$240,000

The remaining principal, in the amount of \$250,000, will be paid at stated maturity on December 1, 2024.

The bonds maturing on December 1, 2026, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2025	\$260,000

The remaining principal, in the amount of \$270,000, will be paid at stated maturity on December 1, 2026.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 18 - LONG-TERM OBLIGATIONS (Continued)**

The bonds maturing on December 1, 2028, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2027	\$285,000

The remaining principal, in the amount of \$295,000, will be paid at stated maturity on December 1, 2028.

The bonds maturing on December 1, 2030, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2029	\$305,000

The remaining principal, in the amount of \$320,000, will be paid at stated maturity on December 1, 2030.

The bonds maturing on or after December 1, 2021, are subject to optional redemption prior to maturity, on December 1, 2020, either in whole or in part, in such order as the City shall determine, on any date on or after December 1, 2020, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

On September 30, 2010, the City issued unvoted general obligation bonds, in the amount of \$9,570,000; \$1,010,000 to retire notes previously issued for roof repair and to purchase various equipment and a vehicle, \$1,376,250 for constructing, equipping, and furnishing a central garage building, \$3,085,287 for sewer improvements, and \$4,098,463 for storm water improvements. The bonds were issued for a twenty year period with final maturity in 2030. The bonds will be paid from the Bond Retirement debt service fund and from the Sewer and Storm Water enterprise funds.

The bonds maturing on or after December 1, 2021, are subject to optional redemption prior to maturity, on December 1, 2020, either in whole or in part, in such order as the City shall determine, on any date on or after December 1, 2020, at a redemption price equal 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

ODOT DRIP TIF - On May 11, 1998, the City entered into a loan agreement with the Ohio Department of Transportation for road improvements to a new industrial park. The loan was issued for a twenty year period with final maturity in 2018. The loan will be paid from the Tax Incremental Financing capital projects fund.

Capital Loans - The City obtained a loan with a local bank for the purchase of a fire truck. The City is paying the loan in equal quarterly payments over the ten-year life of the loan which will mature in 2014. The loan is being repaid from resources of the Capital Improvements capital projects fund.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 18 - LONG-TERM OBLIGATIONS (Continued)**

Compensated Absences - The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund; the Street Construction, Maintenance, and Repair and Marion Area Transit special revenue funds; the Sewer, Sanitation, Storm Water, and Aquatics Center enterprise funds; and the Central Garage internal service fund.

OWDA Loans

OWDA loans consist of money owed to the Ohio Water Development Authority for the replacement of the solids handling system and solids storage building, landfill closure, preservation of Edison Woods, and wastewater treatment plant improvements. OWDA loans will be paid from the Sewer, Storm Water, and Landfill enterprise funds.

OWDA monies spent on items which were not capitalized were \$3,148,979 in the Sewer enterprise fund and \$745,492 in the Landfill enterprise fund.

OPWC Loans

OPWC loans consist of money owed to the Ohio Public Works Commission for road improvements and for construction of sewer and storm water lines and related construction. OPWC loans will be paid from the Tax Incremental Financing capital projects fund and the Sewer and Storm Water enterprise funds. An amortization schedule for the repayment of the loan for the Woodrow and Henry sewer and storm water lines has not been completed. An amortization schedule for the repayment of this loan will not be available until the project is complete and, therefore, is not included in the schedule of future principal repayments.

OWDA loans are payable solely from the gross revenues of the Sewer and Landfill enterprise funds and a portion of the OPWC loans are payable solely from the gross revenues of the Sewer and Storm Water enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the OWDA loans, for completed projects for which amortization schedules are available, are \$16,966,329 and \$1,531,248, respectively, and total principal to be paid on the OPWC loans is \$1,362,016. Principal and interest paid in the Sewer enterprise fund for the current year was \$2,771,987 and \$284,688, \$298,328 and \$37,902 in the Landfill enterprise fund, and \$720,012 in the Storm Water enterprise fund. For 2011, the Storm Water enterprise fund had a net operating loss. Total net revenues for the Sewer and Landfill enterprise funds were \$2,473,770 and \$253,673, respectively.

The City's legal debt margin was \$33,314,408 at December 31, 2011.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 18 - LONG-TERM OBLIGATIONS (Continued)**

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2011, were as follows:

Year	Governmental Activities			
	General Obligation Bonds		ODOT DRIP TIF	
	Principal	Interest	Principal	Interest
2012	\$281,450	\$163,597	\$78,619	\$17,416
2013	285,850	158,293	81,195	15,031
2014	288,400	152,575	83,855	12,624
2015	294,700	146,410	86,602	10,082
2016	302,200	139,698	89,440	7,457
2017-2021	1,488,000	562,888	187,767	6,690
2022-2026	1,044,950	337,675	0	0
2027-2030	1,011,700	107,241	0	0
	\$4,997,250	\$1,768,377	\$607,478	\$69,300

Year	OPWC Loan		
	Capital Loans		Interest
	Principal	Principal	
2012	\$6,410	\$79,899	\$7,545
2013	6,410	82,996	4,449
2014	6,410	64,350	1,233
2015	6,410	0	0
2016	6,411	0	0
2017-2021	32,050	0	0
2022	6,411	0	0
	\$70,512	\$227,245	\$13,227



**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 18 - LONG-TERM OBLIGATIONS (Continued)**

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011, from the enterprise funds were as follows:

Year	Business-Type Activities				
	General Obligation Bonds		OWDA Loans		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
2012	\$803,550	\$431,033	\$1,628,412	\$289,355	\$134,041
2013	824,150	415,628	1,662,562	255,205	134,041
2014	836,600	398,545	1,697,660	220,107	134,040
2015	860,300	381,010	1,733,731	184,037	88,563
2016	887,800	360,896	1,474,122	149,160	88,563
2017-2021	4,227,000	1,400,686	7,253,055	416,300	442,816
2022-2026	2,520,050	797,252	1,516,787	17,084	240,323
2027-2031	2,403,300	248,956	0	0	65,479
2032-2036	0	0	0	0	17,974
2037-2041	0	0	0	0	16,176
	<u>\$13,362,750</u>	<u>\$4,434,006</u>	<u>\$16,966,329</u>	<u>\$1,531,248</u>	<u>\$1,362,016</u>

**NOTE 19 - LANDFILL POSTCLOSURE COSTS**

State and federal laws and regulations require the City to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The City stopped accepting waste at its landfill in 1995. The \$2,085,433 reported as landfill postclosure costs at December 31, 2011, represents the estimated costs of maintenance and monitoring through 2025. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The December 31, 2011, liability decreased from the prior year by \$129,029.

The City is required by state and federal laws and regulations to provide assurances that financial resources will be available to provide for postclosure care and remediation or containment of environmental hazards at the landfill. The City has passed the financial accountability test proving the ability to self-fund these future costs.

**NOTE 20 - FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in governmental funds.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 20 - FUND BALANCE (Continued)**

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Street Maintenance and Repair	Other Governmental Funds
Nonspendable for:			
Interfund Loans	\$281,000	\$1,139,726	\$304,667
Materials and Supplies Inventory	20,524	76,401	372
Prepaid Items	32,211	3,149	2,334
Total Nonspendable	<u>333,735</u>	<u>1,219,276</u>	<u>307,373</u>
Restricted for:			
Court Operations	0	0	876,257
Debt Retirement	0	0	997,970
Economic Development and Rehabilitation	0	0	869,912
Park Improvements	0	0	508
Permanent Improvements	0	0	2,618,425
Police and Fire Operations	0	0	50,794
Railroad Crossing Improvements	0	0	48,625
Senior Citizen Activities	0	0	169,486
Youth Activities	0	0	5,443
Total Restricted	<u>0</u>	<u>0</u>	<u>5,637,420</u>
Committed for:			
Termination Benefits	159,519	0	0
Assigned for:			
Airport Improvements	125,296	0	0
Debt Retirement	0	0	1,372
Parking Meter	2,356	0	0
Recreation	3,174	0	0
Safety Patrol	395	0	0
Softball Field Improvement	15,865	0	0
Underground Storage Tank	11,000	0	0
Total Assigned	<u>158,086</u>	<u>0</u>	<u>1,372</u>
Unassigned (Deficit)	<u>(1,773,980)</u>	<u>(558,064)</u>	<u>(545,077)</u>
Total Fund Balance (Deficit)	<u>(\$1,122,640)</u>	<u>\$661,212</u>	<u>\$5,401,088</u>

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 21 - INTERFUND TRANSFERS**

During 2011, the following transfers were made:

	<u>General</u>	<u>Other Governmental</u>	<u>Sewer</u>	<u>Storm Water</u>	<u>Aquatics Center</u>	<u>Total</u>
Governmental Activities						
Transfers In						
General Fund	\$0	\$83,000	\$0	\$0	\$0	\$83,000
Street Construction, Maintenance, and Repair	707,034	0	1,528	1,389	0	709,951
Other Governmental	220,863	653,088	0	0	362,678	1,236,629
Total	<u>\$927,897</u>	<u>\$736,088</u>	<u>\$1,528</u>	<u>\$1,389</u>	<u>\$362,678</u>	<u>\$2,029,580</u>

The General Fund made transfers to the Street Construction, Maintenance, and Repair special revenue fund and other governmental funds to subsidize operations in those funds.

Other governmental funds made transfers to the General Fund as authorized by the Municipal Court judge to pay for police related expenditures and to other governmental funds to subsidize activities in those funds.

The Sewer enterprise fund made transfers to the Street Construction, Maintenance, and Repair special revenue fund to subsidize construction activities.

The Storm Water enterprise fund made transfers to the Street Construction, Maintenance, and Repair special revenue fund to subsidize construction activities.

The Aquatics Center enterprise fund made transfers to other governmental funds at the conclusion of the construction activities.

**NOTE 22 - INSURANCE POOLS**

**A. Ohio Municipal Joint Self-Insurance Pool**

The Ohio Municipal Joint Self-Insurance Pool, a risk-sharing pool, was established in 1987 to provide property and liability insurance coverage to its member municipalities. The Pool's objectives are to formulate, develop, and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of its member municipalities. The Pool is governed by a Board of Trustees elected from its membership. A member may withdraw its membership in the Pool at the end of any coverage period upon sixty days written notice to the Pool. Members who terminate participation in the Pool are subject to a supplemental assessment or a refund, at the discretion of the Board of Trustees, depending on the ultimate loss experience of its members for the coverage period. Financial information for the Pool may be obtained from the Ohio Municipal Joint Self-Insurance Pool, 1340 Depot Street, Cleveland, Ohio 44118.

**CITY OF MARION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 22 - INSURANCE POOLS (Continued)**

**B. Ohio Rural Water Association Workers' Compensation Group Rating Plan**

The City participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Rural Water Association Workers' Compensation Group Rating Plan is an insurance purchasing pool. A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services and general management fees, determining ongoing eligibility of each participant, and performing any other acts and functions which may be delegated to it by the participating members. Financial information may be obtained from the Ohio Rural Water Association Workers' Compensation Group Rating Plan, 975 Linden Avenue, Zanesville, Ohio 43701.

**NOTE 23 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Marion County General Health District**

The City participates in the Marion County General Health District, a jointly governed organization created according to the provisions of Ohio Revised Code Section 3709.07. The General Health District is governed by a Board of Health consisting of three members representing the City of Marion and appointed by the Mayor, three members representing Marion County and appointed by the District Advisory Council, and one member appointed by the Health District Licensing Council. During 2011, the City contributed \$150,000 toward the operations of the General Health District. Financial information can be obtained from the Marion County Auditor, 222 West Center Street, Marion, Ohio 43302.

**B. Marion Port Authority**

The Marion Port Authority is a jointly governed organization between Marion County and the City of Marion. The Port Authority may acquire, purchase, construct, reconstruct, enlarge, furnish, equip, maintain, repair, sell, exchange, lease or rent to or from, operate, manage, or contract for the operation of management of the port authority facilities as defined in the Ohio Revised Code. The Port Authority is governed by a five member board of directors consisting of two members appointed by the Marion County Commissioners, two members appointed by the City of Marion, and one joint appointee. Each participant's ability to influence the operations of the Port Authority is limited to its representation of the board. Financial information can be obtained from the Marion Port Authority, 205 West Center Street, Marion, Ohio 43302.

**NOTE 24 - CONTINGENT LIABILITIES**

**A. Litigation**

The City is party to 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.

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MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

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**NOTE 24 - CONTINGENT LIABILITIES (Continued)**

**B. Federal and State Grants**

For the period January 1, 2011, to December 31, 2011, the City received state and federal 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.

**NOTE 25 - MANAGEMENT'S PLAN**

The City of Marion has experienced financial difficulties. The decrease in the City's income tax, additional State funding cuts, and the continued regional recession have all been contributing factors.

The City is starting to see a decrease in unemployment which in turn is stabilizing income. The City will be facing additional State cuts for the 2013 budget, in the amount of \$720,000.

City Council approved a reduction in the income tax credit from 100 percent to 50 percent and now requires universal filing for all City residents. With the passage of these ordinances, the City is anticipating an increase of \$300,000 for the 2013 budget year; this would leave a shortfall for the 2013 budget of \$420,000.

In 2012, each department was funded on a percentage basis. That percentage will be used to calculate each department's 2013 budget amount. The departments will then determine how to distribute those resources within their 2013 budget.

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CITY OF MARION  
MARION COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant - State's Program '09 Formula	A-F-09-142-1	14.228	\$ 123,297
Community Development Block Grant - State's Program '10 Formula	A-F-10-142-1	14.228	32,802
Community Development Block Grant- State's Program '08 (CHIP)	A-C-08-142-1	14.228	5,500
Community Development Block Grant- State's Program '10 (CHIP)	A-C-10-142-1	14.228	73,848
Community Development Block Grant- State's Program '08 (Neighborhood Stabilization Program Grants)	A-Z-08-142-1	14.228	398,754
Total Community Development Block Grant State's Program			<u>634,201</u>
HOME Investment Partnership Program	A-C-08-142-2	14.239	7,822
HOME Investment Partnership Program	A-C-10-142-2	14.239	19,202
<b>TOTAL U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			<u><b>661,225</b></u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<i>Direct:</i>			
ARRA - Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	2009-SB-B9-0366	16.580	11,679
Public Safety Partnership and Community Policing Grants	2010-UM-WX-0246	16.710	170,397
Edward Byrne Memorial Justice Assistance Grant Program	2010-DJ-BX-0071	16.738	6,351
<i>Passed Through the Ohio Office of Criminal Justice Services</i>			
ARRA-Violence Against Women Formula Grant	2009-AR-VA2-1260	16.588	15,500
Violence Against Women Formula Grant	2010-WF-VA2-8110	16.588	32,525
Violence Against Women Formula Grant	2009-WF-VA2-8110A	16.588	27,475
Total Violence Against Women Formula Grant			<u>75,500</u>
ARRA-Juvenile Intervention Specialist	2009-RA-B01-2344	16.803	4,292
Edward Byrne Memorial Justice Assistance Grant - School Resource Officer Grant	2010-JG-B01-6412	16.738	47,473
- ARRA School Resource Officer Grant	2009-RA-A02-2273	16.803	21,190
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<u><b>426,853</b></u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
<i>Direct:</i>			
Airport Improvement Program	AIP-3-39-0050-1909	20.106	85,813
			<u>85,813</u>
<i>Passed Through Ohio Department of Transportation</i>			
Rural Transit Grant Program Operating Projects	RPT-4051-030-101	20.509	67,585
Rural Transit Grant Program Operating Projects	RPT-4051-030-111	20.509	311,718
Rural Transit Grant Inter-City Projects	RPT-4051-031-113	20.509	5,340
Rural Transit Grant Program Capital Projects	RPT-0051-031-112	20.509	32,022
ARRA-Rural Transit Grant Program Capital	RPTS-0051-001-093	20.509	279,998
ARRA-Rural Transit Grant Program Capital	RPTS-0051-002-094	20.509	17,972
Total Rural Transit Grant Program			<u>714,635</u>
<i>Passed Through Ohio Department of Public Safety-The Governor's Highway Safety Office</i>			
Alcohol Impaired Driving Countermeasures Incentives Grant	2011-51-00-00-00543-00	20.601	44,089
Total Alcohol Impaired Driving Countermeasures Incentives Grant			<u>44,089</u>

CITY OF MARION  
MARION COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)

Federal Grantor <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>U.S. DEPARTMENT OF ENERGY</b>			
<i>Direct:</i>			
ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)	DE-EE0002208	81.128	82,681
<b>TOTAL U.S. DEPARTMENT OF ENERGY</b>			<b>82,681</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<i>Passed Through Ohio Department of Aging</i>			
Special Programs for the Aging-Title III, Part B Grants for Supportive Services and Senior Centers	N/A	93.044	52,025
Special Programs for the Aging-Title III, Part E Grants for Supportive Services and Senior Centers	N/A	93.044	3,750
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>55,775</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
<i>Direct</i>			
Assistance to Firefighters Grant Program	2010-FO-09793	97.044	16,632
<i>Passed Through Ohio Department of Public Safety-Emergency Management Agency</i>			
Homeland Security Grant Program	2010-SS-TO-0012	97.067	36,470
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<b>53,102</b>
<b>Total Federal Awards Expenditures</b>			<b>\$ 2,034,202</b>

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



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
YEAR ENDED DECEMBER 31, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FORMULA GRANTS FOR OTHER THAN URBANIZED AREAS**

Cash receipts from the Ohio Department of Transportation are commingled with State grants and other local monies. It is assumed federal monies are expended first.

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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# Dave Yost • Auditor of State

## 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 43302

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 3, 2012, wherein we noted the City is experiencing financial difficulties. We also noted the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2011-001 through 2011-004.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 3, 2012.

We intend this report solely for the information and use of management, City Council, federal awarding agencies and pass-through entities, and others within the City. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

July 3, 2012



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

City of Marion  
Marion County  
233 West Center Street  
Marion, Ohio 43302

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 could directly and materially affect each of the City's major federal programs for the year ended December 31, 2011. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs 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 opine on the City's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these 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 these requirements.

As described in finding 2011-007 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Reporting and Matching applicable to its Formula Grant for Other Than Urbanized Areas major federal program. Additionally, as described in findings 2011-010 and 2011-011 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Reporting and Cash Management applicable to its Community Development Block Grant Program major federal program. Compliance with these requirements is necessary, in our opinion, for the City to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Marion complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2011.

The results of our auditing procedures also disclosed other instances of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Findings 2011-005, 2011-008 and 2011-009.

### Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a deficiency that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-007, 2011-010 and 2011-011 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-006 and 2011-008 to be significant deficiencies.

The City's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

July 3, 2012

CITY OF MARION  
MARION COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified - ARRA/Formula Grants for Other Than Urbanized Areas – CFDA #20.509  Qualified - Community Development Block Grant – States Program – CFDA #14.228
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	ARRA/Formula Grants for Other Than Urbanized Areas – CFDA #20.509  Community Development Block Grant – States Program – CFDA #14.228
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011**

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

**FINDING NUMBER 2011-001**

**Deposits & Investments  
Material Non-Compliance**

Ohio Rev. Code Section 135.13 allows entities to invest in certain interim deposits, consisting of certificates of deposits maturing not more than one year from the date of deposit, or savings or deposit accounts.

Ohio Rev. Code Section 135.14 (J) states if any investments or deposits purchased under the authority of this section are issuable to a designated payee or to the order of a designated payee, the name of the treasurer and the title of the treasurer's office shall be so designated. The Treasurer, per Ohio Rev. Code Section 135.14 (K), is responsible for the safekeeping of all documents evidencing a deposit or investment acquired by his office under this section.

We noted the following regarding the City's deposit and investment activity:

- The City has purchased certificates of deposit using interim monies totaling \$1,565,000 that have maturity dates up to 45 months, beyond the statutory one year limitation.
- While all of the City's deposits and investments were held in the City's name as of December 31, 2011 we noted three deposit or investment accounts which were not specifically held in the City Treasurer's name.

We recommend the City only purchase investments in certificates of deposit that have a maturity date of not more than one year from the date of deposit; investments should be registered in the name of the Marion City Treasurer.

**Officials' Response:**

Longer terms allowed the City to get a higher return in interest on invested money. With the passage of Sub HB 209 this will not be an issue in 2012. The City is still working with the Auditor of State to determine if these funds need to be declared inactive by Council.



**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-002**

**Appropriations  
Material Non-Compliance**

Ohio Rev. Code 5705.36 (A) (4) requires obtaining a reduced amended certificate of estimated resources if the amount of a revenue deficiency will reduce available resources below the current level of appropriations. The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

Additionally, Ohio Rev. Code Section 5705.39 states that the total appropriation from each fund shall not exceed the total of the estimated amount available for expenditure, as certified by the budget commission.

Contrary to Ohio Rev. Code 5705.39 at December 31, 2011, the City's General Fund had estimated resources of \$16,385,586 and appropriations of \$17,056,952; appropriations exceeded estimated resources by \$671,366.

Additionally, contrary to Ohio Rev. Code 5705.36(A)(4), at December 31, 2011 appropriations exceeded actual resources in the following funds:

Fund	Actual Resources	Appropriations	Variance
General Fund	\$ 16,737,508	\$ 17,056,955	\$ 319,447
Street Construction, Maintenance, and Repair Fund	2,220,465	2,247,586	27,121

We recommend the City closely monitor its appropriations in respect to its estimated resources to ensure expenditures do not exceed available resources. We also recommend that when it becomes evident that ending appropriations will exceed ending actual resources the City should obtain a reduced amended certificate of estimated resources and reduce appropriations to a level below anticipated actual resources.

**Officials' Response:**

City funds are extremely tight which makes this very difficult. It is all a matter of timing. The City did do a budget adjustment the last week of December but year -end revenues and expensed occurred all the way through closing on December 30th.

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

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

**FINDING NUMBER 2011-003**

**Budgetary Expenditures Exceed Appropriations  
Material Non-Compliance**

Ohio Rev. Code Section 5705.41 (B) states in part that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated against an appropriate fund. Furthermore, expenditures may not exceed appropriations at the legal level of control. The legal level of control is defined as the level at which appropriations are approved by the City Council; for the City the legal level of control is the object level.

We noted the following significant instances where budgetary expenditures (cash disbursements plus outstanding encumbrances) exceeded appropriations at the legal level of control (object level):

Fund	Function	Object	Appropriations	Budgetary Expenditures	Excess
Clean Ohio Grant	Community Environ.	Contractual Services	\$ 1,025,812	\$ 1,636,835	\$ (611,023)
Sewer	Debt Service	Principal Retirement	4,975,106	6,208,959	(1,233,853)
Landfill	Debt Service	Principal Retirement	317,172	448,328	(131,156)
Stormwater	Debt Service	Principal Retirement	3,117,764	3,820,940	(703,176)

We recommend the City monitor budgetary expenditures and appropriations at the legal level of budgetary control.

In order to limit expenditures within appropriated amounts, City Council may amend the annual appropriation measure by approving supplemental appropriations or by transferring appropriations from one line item to another. We also recommend the City Auditor not pay expenditures that exceed appropriations unless the appropriations are properly amended.

**Officials' Response:**

The City will be working with Local Government Services on this issue. We believe this finding is due to a misunderstanding of the year end adjustment ordinance.

CITY OF MARION  
MARION COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)

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

**FINDING NUMBER 2011-004**

**Negative Fund Balances  
Material Non-Compliance**

Ohio Rev. Code Section 5705.10(D) states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. Further, Ohio Rev. Code Section 5705.10(H) states that money paid into any fund shall be used only for the purposes for which such fund was established.

The existence of a deficit fund balance is an indication that monies from one fund were used to pay the obligations of another fund.

We noted the following funds which had negative cash balances at December 31, 2011:

	Fund Balance
General Fund	\$ (155,801)
Street Construction, Maintenance, and Repair Fund	(14,983)
State Highway Fund	(11,580)
COPS Grant Fund	(46,694)
Marion Area Transit Fund	(62,260)
Sanitation Fund	(35,723)

Although deficit cash balances could be attributable to cash flows, we recommend that monies be expended from funds only for the purposes for which funds were established and that those charged with governance and management monitor fund balances to ensure deficits are avoided.

**Officials' Response:**

With very low fund balances there is no money to advance. Most of these issues are deferred revenue; again it is a matter of timing.

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**Filing of Single Audit  
Material Non-Compliance**

<b>Finding Number</b>	2011-005
<b>CFDA Title and Number</b>	14.228 – Community Development Block Grant 20.509 – Formula Grants for Other Than Urbanized Areas
<b>Federal Award Number / Year</b>	A-F-09-142-1    A-F-10-142-1    A-C-08-142-1 A-C-10-142-1    A-Z-08-142-1 RPT-4051-030-101    RPT-4051-030-111 RPT-4051-031-113    RPT-0051-031-112 RPTS-0051-001-093    RPTS-0051-002-094
<b>Federal Agency</b>	United States Department of Housing & Urban Development United States Department of Transportation
<b>Pass-Through Agency</b>	Ohio Dept of Development Ohio Dept of Transportation

OMB Circular A-133 Subpart B § \_\_.200(a) states that Non-Federal entities that expend \$500,000 or more in Federal awards in a fiscal year shall have a single audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in § \_\_.205. OMB Circular A-133 Subpart B § \_\_.200 (b) requires Non-Federal entities that expend \$500,000 or more in a fiscal year in Federal awards shall have a single audit conducted in accordance with § \_\_.500 except when they elect to have a program-specific audit. OMB Circular A-133 § .320(a) requires such report to be filed with the Federal Audit Clearing House within nine months after the end of the audit period.

The City expended \$2,033,680 in federal awards in 2010. Because timely financial statements were not prepared and therefore a timely audit was not completed, the 2010 Single Audit report filing was not completed until November 28, 2011, which did not meet the required filing deadline noted above. This condition affected all federal programs.

Without filing the required reports with the Federal Audit Clearinghouse in a timely manner the City did not meet the criteria for a low-risk auditee status under OMB Circular A-133§ .530; this typically results in auditors being required to audit more federal programs at the City, and could affect the City's future federal funding status.

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
--

**Filing of Single Audit  
Material Non-Compliance (Continued)**

<b>Finding Number</b>	2011-005
<b>CFDA Title and Number</b>	14.228 – Community Development Block Grant 20.509 – Formula Grants for Other Than Urbanized Areas
<b>Federal Award Number / Year</b>	A-F-09-142-1    A-F-10-142-1    A-C-08-142-1 A-C-10-142-1    A-Z-08-142-1 RPT-4051-030-101    RPT-4051-030-111 RPT-4051-031-113    RPT-0051-031-112 RPTS-0051-001-093    RPTS-0051-002-094
<b>Federal Agency</b>	United States Department of Housing & Urban Development United States Department of Transportation
<b>Pass-Through Agency</b>	Ohio Dept of Development Ohio Dept of Transportation

We recommend the City ensure its Single Audit report is timely filed, within nine months after the end of the audit period.

**Officials' Response and Corrective Action Plan:**

This has been corrected for 2012 and will not apply next year. The City's Financial Statements and Audit will be filed within time allowed by law.

Anticipated Completion Date:                      July 3, 2012  
Responsible Contact:                                      Kelly Carr, City Auditor

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
--

**Program Income – Fare Box Revenue – Transit Department  
Significant Deficiency**

<b>Finding Number</b>	2011-006
<b>CFDA Title and Number</b>	20.509 – Formula Grants for Other Than Urbanized Areas
<b>Federal Award Number / Year</b>	RPT-4051-030-101 RPT-4051-030-111 RPT-4051-031-113 RPT-0051-031-112 RPTS-0051-001-093 RPTS-0051-002-094
<b>Federal Agency</b>	United States Department of Transportation
<b>Pass-Through Agency</b>	Ohio Dept of Transportation

The City operates a bus service for its residents. Fees generated from the bus service are considered Program Income; the amount of fees generated directly affects the amount of federal funding provided to the City. Once each shift is complete the bus drivers bring their fare box and manifest, containing a listing of all passengers, to the Transit Department. The cash and tickets in the fare boxes are counted by a dispatcher and a deposit slip is completed; the dispatcher performs an informal reconciliation between the fare box and the cash and tickets in the fare box. The manifests are maintained at the Transit Department.

There are limited procedures to ensure the completeness of receipts in each fare box. Ideally, the City should be observing the following procedures:

- Two individuals should count the cash and tickets from each fare box to ensure accuracy and accountability;
- Each driver's manifest should be reconciled to the actual cash and tickets from their fare box; this should be documented in a formal (paper) reconciliation;
- The reason(s) for any overages or shortages should be documented on the reconciliation;
- The individual completing the reconciliation should initial it;
- The reconciliations should be reviewed and initialed by the Transit Director so that any trends in overages/shortages can be properly monitored;
- The reconciliations should be maintained with the manifests for future reference

Without adequate controls in place, the amount of program income reported and the resulting amount of federal funding provided could be incorrect. We believe implementation of the above procedures would strengthen Program Income internal controls and ensure the completeness of transit revenue. The City has begun implementing these procedures in 2012.

**Officials' Response and Corrective Action Plan:**

The Administration and Transit department are working with a consulting firm to make corrections.

Anticipated Completion Date: July 3, 2012  
Responsible Contact: Jeff Marsh, Transit Director

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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**Reporting/Matching – Rural Transit Program  
Material Non-Compliance/Material Weakness**

<b>Finding Number</b>	2011-007
<b>CFDA Title and Number</b>	20.509 – Formula Grants for Other Than Urbanized Areas
<b>Federal Award Number / Year</b>	RPT-4051-030-101 RPT-4051-030-111 RPT-4051-031-113 RPT-0051-031-112 RPTS-0051-001-093 RPTS-0051-002-094
<b>Federal Agency</b>	United States Department of Transportation
<b>Pass-Through Agency</b>	Ohio Dept of Transportation

The City receives funding from the Ohio Department of Transportation (ODOT) under the Rural Transit Program. ODOT asks its grantees to submit quarterly reconciliation invoices, following the guidance in the National Transit Database Manual published by the National Transit Administration ([http://www.ntdprogram.gov/ntdprogram/pubs/RuralRM/2011/pdf/2011\\_Rural\\_Reporting\\_Manual.pdf](http://www.ntdprogram.gov/ntdprogram/pubs/RuralRM/2011/pdf/2011_Rural_Reporting_Manual.pdf)).

The City is required to contribute local funds to match the amount of federal and state funding. Once completed, each quarterly reconciliation invoice provides the amount required for the local match. Fare box revenue is not an allowable source of local matching; local matching amounts must be provided from other sources.

With regard to financial reporting, page 35 of the above Manual explains financial reporting must be on the accrual basis, which provides a more accurate representation of revenues and expenditures than the cash basis; the accrual basis recognizes revenues when earned (rather than received) and expenditures when incurred (rather than when actually paid in cash). ODOT provides a spreadsheet that grantees use to report quarterly accrual basis financial information; the spreadsheet also calculates the local matching requirement.

Contrary to this, during 2011 the City submitted cash basis financial information to ODOT. The effect of this was that the City reported an estimated \$35,002 less of expenditures than what was actually incurred on the accrual basis and transferred \$25,448 less from the General Fund than what would have otherwise been required to meet its local matching obligation under the grant agreement.

We recommend the City utilize the quarterly financial invoice reconciliation spreadsheet provided by ODOT which reports financial data on the accrual basis of accounting; using this spreadsheet will allow the City to ensure compliance with reporting and matching requirements.

**Officials’ Response and Corrective Action Plan:**

The Administration and Transit department are working with a consulting firm to make corrections.

Anticipated Completion Date: July 3, 2012  
Responsible Contact: Jeff Marsh, Transit Director

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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**Allowable Costs/Cost Principles – Rural Transit Program  
Material Non-Compliance/Questioned Costs/Significant Deficiency**

<b>Finding Number</b>	2011-008
<b>CFDA Title and Number</b>	20.509 – Formula Grants for Other Than Urbanized Areas
<b>Federal Award Number / Year</b>	RPT-4051-030-101 RPT-4051-030-111 RPT-4051-031-113 RPT-0051-031-112 RPTS-0051-001-093 RPTS-0051-002-094
<b>Federal Agency</b>	United States Department of Transportation
<b>Pass-Through Agency</b>	Ohio Dept of Transportation

2 C.F.R. Part 225, Appendix A Section C3 states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Further, 2 C.F.R. Part 225, Appendix A Section C1 lists the factors affecting allowability of costs. To be allowable under Federal awards, costs must be adequately documented and meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of 2 C.F.R. Part 225.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g. Except as otherwise provided for in 2 C.F.R. Part 225, be determined in accordance with generally accepted accounting principles.
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- i. Be the net of all applicable credits.
- j. Be adequately documented.

The City charged \$1,500 per month to the grant for storage of buses, which is not an allowable cost to be charged to the Rural Transit federal program and paid 13 months during 2011.



**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
--

**Allowable Costs/Cost Principles – Rural Transit Program  
Material Non-Compliance/Questioned Costs/Significant Deficiency (Continued)**

<b>Finding Number</b>	2011-008
<b>CFDA Title and Number</b>	20.509 – Formula Grants for Other Than Urbanized Areas
<b>Federal Award Number / Year</b>	RPT-4051-030-101 RPT-4051-030-111 RPT-4051-031-113 RPT-0051-031-112 RPTS-0051-001-093 RPTS-0051-002-094
<b>Federal Agency</b>	United States Department of Transportation
<b>Pass-Through Agency</b>	Ohio Dept of Transportation

Therefore \$19,500 of the City's total Rural Transit Program expenditures of \$714,635 are questioned.

We recommend the City ensure that costs charged to the Rural Transit federal program are allowable, as indicated by 2 C.F.R. Part 225, Appendix A Section C1.

**Officials' Response and Corrective Action Plan:**

The Administration and Transit department are working with a consulting firm to make corrections.

Anticipated Completion Date: July 3, 2012  
Responsible Contact: Jeff Marsh, Transit Director

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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**Earmarking – Rural Transit Program  
Material Non-Compliance/Questioned Costs/Significant Deficiency (Continued)**

<b>Finding Number</b>	2011-009
<b>CFDA Title and Number</b>	20.509 – Formula Grants for Other Than Urbanized Areas
<b>Federal Award Number / Year</b>	RPT-4051-030-101 RPT-4051-030-111 RPT-4051-031-113 RPT-0051-031-112 RPTS-0051-001-093 RPTS-0051-002-094
<b>Federal Agency</b>	United States Department of Transportation
<b>Pass-Through Agency</b>	Ohio Dept of Transportation

49 U.S.C. Section 5311(g)(2) and the Ohio Department of Transportation's *Rural Transit Program Manual*, Chapter 1 Section D provide guidance regarding federal earmarking requirements. The federal share for program operating expenses is capped at fifty percent of the net project cost, comprised of operating and administration expenses less fare box revenue.

During 2011 the City's Transit Department had operating expenses of \$858,158 offset by fare box revenue of \$133,253, resulting in a net project cost of \$724,905; therefore when applying the above guidance, the ceiling on federal funds the City could receive was \$362,453, fifty percent of the net project cost. However, because the City reported grant activity on the cash basis, the City received \$379,303 of federal funding, an estimated excess of \$16,850.

Circular A-133 defines questioned costs to include costs that are questioned by the auditor because of an audit finding that resulted from a violation or possible violation of a provision of a law, regulation contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds. Therefore, \$16,850 is a questioned cost.

We recommend the City work closely with the Ohio Department of Transportation to monitor the amount it is eligible to receive; excess amounts received should be returned to the Ohio Department of Transportation.

**Officials' Response and Corrective Action Plan:**

The Administration and Transit department are working with a consulting firm to make corrections.

Anticipated Completion Date: July 3, 2012  
Responsible Contact: Jeff Marsh, Transit Director

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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**Reporting – Community Development Block Grant  
Material Non-Compliance/Material Weakness**

<b>Finding Number</b>	2011-010
<b>CFDA Title and Number</b>	14.228 – Community Development Block Grant
<b>Federal Award Number / Year</b>	A-F-09-142-1    A-F-10-142-1    A-C-08-142-1 A-C-10-142-1    A-Z-08-142-1
<b>Federal Agency</b>	United States Dept of Housing and Urban Development
<b>Pass-Through Agency</b>	Ohio Dept of Development

24 C.F.R. 85.20 (c) (1) (2) states that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant and that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorization, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

In 2011, the City received and expended Small Cities Community Development Block Grant (CDBG) Program grant monies through a grant from the Ohio Department of Development. The CDBG grants are administered by the Marion County Regional Planning Commission (MCRPC) and the City Auditor is responsible for accounting for the fiscal activity for the grant.

The City has not established separate funds or cost centers for each of its CDBG grants. Ohio Rev. Code Section 5705.09 (F) requires the City to establish a special fund for each class of revenue derived from a source other than the general property tax, which the law requires to be used for a particular purpose; additionally, the City’s CDBG grant agreements also typically require separate accounting for each grant. The City has accounted for seven separate CDBG grants within five funds, which does not facilitate effective monitoring and reporting of each grant. Further the City Auditor and MCRPC did not perform timely reconciliations of the City’s accounting data and the MCRPC records.

Failure to establish separate funds or cost centers and perform timely reconciliations has led to the following conditions:

- We noted nine adjustments ranging from \$55 to \$5,161 to correct errors in reporting of grant expenditures among the grant funds.
- The City is required to submit periodic status reports to the Ohio Department of Development (ODOD), the grantor agency to provide a snapshot of each grant’s progress; we noted variances on all status reports submitted during 2011, ranging in amounts between \$6,738 and \$22,037.

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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**Reporting – Community Development Block Grant  
Material Non-Compliance/Material Weakness (Continued)**

<b>Finding Number</b>	2011-010
<b>CFDA Title and Number</b>	14.228 – Community Development Block Grant
<b>Federal Award Number / Year</b>	A-F-09-142-1    A-F-10-142-1    A-C-08-142-1 A-C-10-142-1    A-Z-08-142-1
<b>Federal Agency</b>	United States Dept of Housing and Urban Development
<b>Pass-Through Agency</b>	Ohio Dept of Development

Lack of separate funds or cost centers, performing timely reconciliations, and accurately reporting grant activity could jeopardize future CDBG grant funding for the City. We recommend the City segregate the financial activity of each of the CDBG grants by establishing separate funds or cost centers for each individual grant.

We also recommend the City and MCRPC perform timely reconciliations of each grant’s activity to the City’s accounting ledgers, and perform accurate reporting. This will facilitate proper monitoring of each grant’s activity and to help ensure compliance with grant reporting requirements.

**Officials’ Response and Corrective Action Plan:**

The City is working with Regional Planning to correct this issue.

Anticipated Completion Date:	July 3, 2012
Responsible Contact:	Kelly Carr, City Auditor and Marion County Regional Planning Commission

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

**Cash Management – Community Development Block Grant  
Material Non-Compliance/Material Weakness**

<b>Finding Number</b>	2011-011
<b>CFDA Title and Number</b>	14.228 – Community Development Block Grant
<b>Federal Award Number / Year</b>	A-F-09-142-1    A-F-10-142-1    A-C-08-142-1 A-C-10-142-1    A-Z-08-142-1
<b>Federal Agency</b>	United States Dept of Housing and Urban Development
<b>Pass-Through Agency</b>	Ohio Dept of Development

24 C.F.R. 85.21 (c) states grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

The Ohio Office of Housing and Community Partnership's Financial Management Rules and Regulations, Section (A)(3)(f), states in part the grantee must develop a cash management system to ensure compliance with the Fifteen Day Rule relating to prompt disbursement of funds; funds drawn down are limited to amounts that the grantee can disburse promptly, so a balance of less than \$5,000 is remaining within fifteen days of receipt of funds.

The City was the recipient of the Community Development Block (CDBG) Grant, obtained through the Ohio Department of Development's Office of Housing and Community Partnerships (OHCP). We noted the following instances in which the amounts drawn down were not reduced to less than \$5,000 within fifteen days of receipt of funds:

Grant	Drawdown		Balance on Hand	# Days Until Balance
	Date	Amount	After 15 Days	Reduced to < \$5,000
A-F-09-142-1	5/24/2011	\$ 35,000	\$ 103,427	89
A-F-09-142-1	6/2/2011	23,100	103,427	81
A-F-09-142-1	6/7/2011	40,600	84,949	76
A-F-10-142-1	10/31/2011	30,000	47,790	61
A-F-10-142-1	10/31/2011	15,500	47,790	61
A-F-10-142-1	12/2/2011	500	76,990	29
A-F-10-142-1	12/6/2011	55,000	76,990	25
A-C-10-2CI-1	3/14/2011	10,000	5,811	127
A-C-10-2CI-1	4/19/2011	6,300	8,671	91
A-C-10-2CI-2	5/20/2011	6,600	26,638	60
A-C-10-2CI-1	5/21/2011	22,900	26,638	59
A-C-10-2CI-1	11/7/2011	21,000	11,632	54
A-C-10-2CI-2	11/23/2011	34,000	33,391	38
A-C-10-2CI-1	12/23/2011	5,000	90,150	8
A-C-10-2CI-2	12/23/2011	53,000	90,150	8
A-C-10-2CI-1	12/23/2011	5,000	90,150	8
A-Z-08-142-1	2/24/2011	397,021	80,599	89
A-Z-08-142-1	3/21/2011	7,800	88,399	64

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2011  
(Continued)**

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)</b>
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**Cash Management – Community Development Block Grant  
Material Non-Compliance/Material Weakness (Continued)**

<b>Finding Number</b>	2011-011
<b>CFDA Title and Number</b>	14.228 – Community Development Block Grant
<b>Federal Award Number / Year</b>	A-F-09-142-1    A-F-10-142-1    A-C-08-142-1 A-C-10-142-1    A-Z-08-142-1
<b>Federal Agency</b>	United States Dept of Housing and Urban Development
<b>Pass-Through Agency</b>	Ohio Dept of Development

In addition, Section (A)(3)(l) of the OHCP Management Rules and Regulations states in part the grantee should deposit federal funds received from OHCP in a non-interest bearing account. If the grantee deposits funds in an interest earning account, the grantee must remit to OHCP, on at least a quarterly basis, any interest earned that totals more than \$100 per year.

The City deposited each grant receipt into an interest-bearing account. Although certain grant receipts were held for a significant period of time, the City did not perform any calculation of interest earned by the grant money, nor remit any interest earnings to the OHCP. We impute the estimated interest earnings on the excess cash balances above is \$992 based on the 1.00% average 2011 U.S. Treasury Current Value of Funds Rate.

We recommend the City implement cash management procedures to disburse CDBG grant funds on hand to a balance of less \$5,000 within fifteen days of receipt, and to identify interest earnings on grant monies and remit those earnings to OHCP as required. We also recommend the City determine the interest earned by these grant monies held and consult with OHCP regarding whether such interest earnings should now be remitted. To help alleviate difficulties in complying with cash management regulations, the City may consider general fund advances to the grant fund to make program disbursements and subsequently seek reimbursement from the grantor.

**Officials’ Response and Corrective Action Plan:**

The City is working with Regional Planning to correct this issue.

Anticipated Completion Date:	July 3, 2012
Responsible Contact:	Kelly Carr, City Auditor and Marion County Regional Planning Commission

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2010-001	Financial Monitoring – Material Weakness – certain individuals in charge of financial monitoring did not review system-generated reports.	No	Partially Corrected – reported in Management Letter
2010-002	Investments – Ohio Rev. Code 135 – City invested interim deposits in certificates of deposit with maturities beyond one year; investments were not held in City Treasurer’s name.	No	Re-Issued as Finding #2011-001
2010-003	Appropriations – Ohio Rev. Code 5705.36(A)(4) and 5705.39 – appropriations exceeded estimated resources and actual resources.	No	Re-Issued as Finding #2011-002
2010-004	Budgetary Expenditures Exceed Appropriations & Posting to the Accounting System – Ohio Rev. Code 5705.41(B) and 5705.42.	No	Re-Issued as Finding #2011-003
2010-005	Negative Fund Balances – Ohio Rev. Code 5705.10(D) – City had nine funds with negative fund balances.	No	Re-Issued as Finding #2011-004
2010-006	Purchasing Authorization Controls – Significant Deficiency – purchase orders and invoices did not contain approval of department manager.	Yes	
2010-007	Fare Box Revenue – Transit Department	Yes	Finding No Longer Valid
2010-008	Expenditure Authorization Controls – Transit Department	Yes	
2010-009	Expenditure Authorization Controls – Community Development Block Grants	Yes	
2010-010	Reporting - Community Development Block Grants	Yes	
2010-011	Filing of Single Audit	No	Re-Issued as Finding #2011-005

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
DECEMBER 31, 2011  
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2010-012	Accuracy of Federal Awards Expenditure Schedule	Yes	
2010-013	Fare Box Revenue – Transit Department	No	Re-Issued as Finding #2011-006
2010-014	Quarterly Reporting – Transit Grant	No	Re-Issued as Finding #2011-007
2010-015	Allowable Costs/Questioned Costs – Transit Grant	No	Re-Issued as Finding #2011-008
2010-016	Expenditure Authorization Controls – Transit Grants	Yes	
2010-017	Reporting – Community Development Block Grants	No	Re-Issued as Finding #2011-010
2010-018	Cash Management – Community Development Block Grants	No	Re-Issued as Finding #2011-011
2010-019	Property Appraisals – CDBG Grants/Neighborhood Stabilization Program	Yes	Finding No Longer Valid
2010-020	Expenditure Authorization Controls – Community Development Block Grant	Yes	
2010-021	Allowable Costs/Reporting – Community Development Block Grants	Yes	
2010-022	Financial Monitoring	No	Partially Corrected – reported in Management Letter





# Dave Yost • Auditor of State

**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  
AUGUST 02, 2012**