

CITY OF MARION, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2006



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Marion, Marion County, prepared by Holbrook & Manter, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Finding for Recovery Repaid Under Audit

Former Deputy Auditor, Kathy Sherer was paid \$ 1,173.48 over the maximum 2007 salary amount for her position, as specified in City Ordinance 2002-100. The overpayment was not properly authorized or approved by Council.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Kathy Sherer, former Deputy Auditor in the amount of \$ 1,173.48 in favor of the City's General fund.

On March 7, 2008, former Deputy Auditor Kathy Sherer's 2007 year end payout was reduced by \$ 1,173.48 and the amount was credited to the City's General fund.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Marion is responsible for compliance with these laws and regulations.

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Mary Taylor, CPA
Auditor of State

May 5, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Members of City Council and Mayor
City of Marion, Ohio

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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

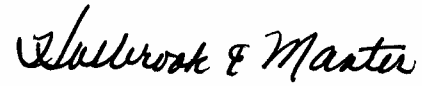
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marion, Marion County, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund and the Street Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Hallbrook & Mantel". The script is cursive and fluid.

Certified Public Accountants

February 27, 2008

**BASIC
FINANCIAL STATEMENTS**

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CITY OF MARION
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS:-			
Equity in pooled cash and cash equivalents	\$ 6,991,726	\$ 6,391,696	\$ 13,383,422
Cash and cash equivalents with fiscal agents	288	0	288
Receivables (net of allowances for uncollectibles):-			
Municipal income taxes	2,441,402	0	2,441,402
Real and other taxes	1,536,849	0	1,536,849
Payment in lieu of taxes	466,952	0	466,952
Accounts	164,972	3,100,270	3,265,242
Special assessments	82,633	0	82,633
Accrued interest	552	0	552
Due from other governments	3,023,150	177,984	3,201,134
Internal balances	(757)	757	0
Prepayments	172,380	94,134	266,514
Materials and supplies inventory	182,659	64,963	247,622
Notes receivable	1,138,742	0	1,138,742
Capital assets:-			
Land and construction in progress	8,640,257	335,207	8,975,464
Depreciable capital assets, net	22,371,982	47,512,434	69,884,416
Total capital assets, net	<u>31,012,239</u>	<u>47,847,641</u>	<u>78,859,880</u>
TOTAL ASSETS	47,213,787	57,677,445	104,891,232
LIABILITIES:-			
Accounts payable	505,351	200,032	705,383
Accrued wages and benefits	211,971	48,993	260,964
Due to other governments	823,300	114,333	937,633
Matured interest payable	288	0	288
Accrued interest payable	30,325	0	30,325
Notes payable	2,275,000	4,725,000	7,000,000
Deferred revenue	1,116,982	0	1,116,982
Long-term liabilities:-			
Due within one year	302,480	2,022,656	2,325,136
Due in more than one year	7,054,149	33,404,727	40,458,876
TOTAL LIABILITIES	12,319,846	40,515,741	52,835,587
NET ASSETS:-			
Invested in capital assets, net of related debt	26,324,560	10,818,900	37,143,460
Restricted for:-			
Debt service	1,126,372	0	1,126,372
Capital projects	701,356	0	701,356
Street	988,033	0	988,033
Court computer	242,937	0	242,937
Recreation	39,162	0	39,162
Public safety	346,106	0	346,106
Community development	1,823,833	0	1,823,833
Public health	3,123	0	3,123
Future employee retirements	504,866	0	504,866
Other purposes	261,640	0	261,640
Unrestricted	<u>2,531,953</u>	<u>6,342,804</u>	<u>8,874,757</u>
TOTAL NET ASSETS	<u>\$ 34,893,941</u>	<u>\$ 17,161,704</u>	<u>\$ 52,055,645</u>

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating and Contributions</u>	<u>Capital and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental Activities:-							
General government	\$ 3,361,750	\$ 936,230	\$ 178,689	\$ 0	\$ (2,246,831)	\$ 0	\$ (2,246,831)
Security of persons and property	12,817,584	896,163	109,663	0	(11,811,758)	0	(11,811,758)
Public health and welfare	1,031,373	267,984	316,794	0	(446,595)	0	(446,595)
Transportation	5,389,641	108,285	1,800,302	996,688	(2,484,366)	0	(2,484,366)
Community environment	712,498	0	953,496	3,944	244,942	0	244,942
Leisure time activity	1,330,251	70,143	36,745	21,734	(1,201,629)	0	(1,201,629)
Other	2,180	0	0	0	(2,180)	0	(2,180)
Interest and fiscal charges	252,245	0	0	0	(252,245)	0	(252,245)
Total governmental activities	<u>24,897,522</u>	<u>2,278,805</u>	<u>3,395,689</u>	<u>1,022,366</u>	<u>(18,200,662)</u>	<u>0</u>	<u>(18,200,662)</u>
Business-type Activities:-							
Sewer	4,721,052	5,650,246	0	233,416	0	1,162,610	1,162,610
Sanitation	1,905,078	2,412,369	0	998	0	508,289	508,289
Storm sewer	1,139,391	1,234,383	0	19,396	0	114,388	114,388
Other enterprise funds:-							
Pool	117,134	31,646	0	0	0	(85,488)	(85,488)
Transit	869,316	134,016	705,677	0	0	(29,623)	(29,623)
Total business-type activities	<u>8,751,971</u>	<u>9,462,660</u>	<u>705,677</u>	<u>253,810</u>	<u>0</u>	<u>1,670,176</u>	<u>1,670,176</u>
Total primary government	<u>\$ 33,649,493</u>	<u>\$ 11,741,465</u>	<u>\$ 4,101,366</u>	<u>\$ 1,276,176</u>	<u>(18,200,662)</u>	<u>1,670,176</u>	<u>(16,530,486)</u>
General Revenues:-							
Local taxes levied for:-							
General purposes					13,321,308	0	13,321,308
Special revenue					1,540,724	0	1,540,724
Debt service					94,138	0	94,138
Capital projects					384,520	0	384,520
Payment in lieu of taxes					377,705	0	377,705
Franchise fees					169,191	0	169,191
Grants and entitlements not restricted to specific programs					1,884,999	0	1,884,999
Investment earnings					633,496	25,030	658,526
Miscellaneous					136,608	85,284	221,892
Total general revenues					<u>18,542,689</u>	<u>110,314</u>	<u>18,653,003</u>
Transfers					<u>(214,848)</u>	<u>214,848</u>	<u>0</u>
Change in net assets					<u>127,179</u>	<u>1,995,338</u>	<u>2,122,517</u>
Net assets at beginning of year					<u>34,766,762</u>	<u>15,166,366</u>	<u>49,933,128</u>
Net assets at end of year					<u>\$ 34,893,941</u>	<u>\$ 17,161,704</u>	<u>\$ 52,055,645</u>

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:-				
Equity in pooled cash and cash equivalents	\$ 3,308,986	\$ 559,239	\$ 2,945,365	\$ 6,813,590
Cash and cash equivalents with fiscal agent	0	0	288	288
Receivables (net of allowance for uncollectibles):-				
Municipal income taxes	2,181,445	194,968	64,989	2,441,402
Real and other taxes	1,310,211	0	226,638	1,536,849
Accounts	154,883	0	10,089	164,972
Interfund loans	144,469	0	0	144,469
Accrued interest	552	0	0	552
Special assessments	5,508	0	77,125	82,633
Due from other governments	1,164,734	653,743	1,204,673	3,023,150
Payment in lieu of taxes	0	0	466,952	466,952
Notes receivable	0	0	1,138,742	1,138,742
Due from other funds	0	0	7,037	7,037
Prepayments	138,949	16,036	12,299	167,284
Materials and supplies inventory	31,615	0	1,928	33,543
TOTAL ASSETS	<u>\$ 8,441,352</u>	<u>\$ 1,423,986</u>	<u>\$ 6,156,125</u>	<u>\$ 16,021,463</u>
LIABILITIES:-				
Accounts payable	\$ 262,445	\$ 101,262	\$ 126,154	\$ 489,861
Accrued wages and benefits	171,157	16,524	20,645	208,326
Interfund loan payable	0	0	144,469	144,469
Matured interest payable	0	0	288	288
Due to other governments	581,299	40,771	192,846	814,916
Due to other funds	535	0	7,161	7,696
Notes payable	0	0	775,000	775,000
Deferred revenue	1,908,487	487,512	1,687,812	4,083,811
TOTAL LIABILITIES	<u>2,923,923</u>	<u>646,069</u>	<u>2,954,375</u>	<u>6,524,367</u>
FUND BALANCES:-				
Reserved for encumbrances	46,737	15,860	560,158	622,755
Reserved for prepayments	138,949	16,036	7,122	162,107
Reserved for materials and supplies inventory	31,615	0	1,928	33,543
Reserved for notes	0	0	1,138,742	1,138,742
Reserved for debt service	0	0	711,043	711,043
Unreserved, undesignated (deficit), reported in:-				
General fund	5,300,128	0	0	5,300,128
Special revenue funds	0	746,021	1,358,226	2,104,247
Capital projects funds	0	0	(575,469)	(575,469)
TOTAL FUND BALANCES	<u>5,517,429</u>	<u>777,917</u>	<u>3,201,750</u>	<u>9,497,096</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,441,352</u>	<u>\$ 1,423,986</u>	<u>\$ 6,156,125</u>	<u>\$ 16,021,463</u>

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total governmental fund balances \$ 9,497,096

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

Capital assets used in governmental activities (excluding internal service funds capital assets) are not financial resources and therefore are not reported in the funds. 28,611,158

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

Delinquent property taxes	\$ 179,353
Income taxes	670,075
Special assessments	82,633
Intergovernmental revenues	<u>2,034,768</u>

Total 2,966,829

Internal service funds are used by management to charge the costs of the central garage to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 1,148,253

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities (excluding amounts reported in the internal service funds) are as follows:

Accrued interest payable	(30,325)
General obligation bonds	(1,364,000)
Loans	(1,958,679)
Compensated absences	<u>(3,976,391)</u>

(7,329,395)

Net assets of governmental activities \$ 34,893,941

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:-				
Local taxes	\$ 14,204,468	\$ 1,388,211	\$ 638,989	\$ 16,231,668
Payment in lieu of taxes	0	0	471,843	471,843
Special assessments	6,617	0	20,879	27,496
Charges for services	971,385	5,639	181,418	1,158,442
Fees, licenses and permits	1,043,340	15,400	187,166	1,245,906
Intergovernmental	1,893,278	1,658,842	2,197,505	5,749,625
Investment income	559,523	14,576	59,397	633,496
Other	38,093	1,465	97,050	136,608
Total revenues	<u>18,716,704</u>	<u>3,084,133</u>	<u>3,854,247</u>	<u>25,655,084</u>
EXPENDITURES:-				
Current:-				
General government	3,023,291	0	243,999	3,267,290
Security of persons and property	11,701,158	0	631,841	12,332,999
Public health and welfare	0	0	1,039,432	1,039,432
Transportation	312,020	2,591,349	729,212	3,632,581
Community environment	269,551	0	432,492	702,043
Leisure time activity	593,419	0	624,347	1,217,766
Other	0	0	2,180	2,180
Capital outlay	6,961	213,848	74,514	295,323
Debt service:-				
Principal retirement	0	0	292,427	292,427
Interest and fiscal charges	0	0	185,837	185,837
Total expenditures	<u>15,906,400</u>	<u>2,805,197</u>	<u>4,256,281</u>	<u>22,967,878</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,810,304</u>	<u>278,936</u>	<u>(402,034)</u>	<u>2,687,206</u>
OTHER FINANCING SOURCES (USES):-				
Transfers in	0	0	1,658,369	1,658,369
Transfers out	(1,712,203)	(165,064)	(131,210)	(2,008,477)
Total other financing sources (uses)	<u>(1,712,203)</u>	<u>(165,064)</u>	<u>1,527,159</u>	<u>(350,108)</u>
Net change in fund balances	1,098,101	113,872	1,125,125	2,337,098
Fund balances at beginning of year	<u>4,419,328</u>	<u>664,045</u>	<u>2,076,625</u>	<u>7,159,998</u>
Fund balances at end of year	<u>\$ 5,517,429</u>	<u>\$ 777,917</u>	<u>\$ 3,201,750</u>	<u>\$ 9,497,096</u>

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balances - total governmental funds \$ 2,337,098

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

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

Capital asset additions	\$ 635,452	
Current year depreciation	(2,548,072)	
Total		(1,912,620)

The effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets. (25,541)

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

Delinquent property taxes	(18,203)	
Income taxes	(1,025,896)	
Special assessments	6,969	
Intergovernmental	621,595	
Total		(415,535)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 292,427

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 3,299

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (302,016)

An internal service fund is used by management to charge the costs of the central garage to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 150,067

Change in net assets of governmental activities **\$ 127,179**

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:-				
Municipal income taxes	\$ 11,170,818	\$ 12,561,465	\$ 12,843,231	\$ 281,766
Property taxes	1,224,229	1,298,172	1,298,172	0
Other local taxes	3,126	3,190	1,590	(1,600)
Special assessments	5,000	6,617	6,617	0
Intergovernmental	1,941,101	1,923,867	1,891,970	(31,897)
Charges for services	1,044,150	978,204	963,152	(15,052)
Fines, licenses and permits	950,540	1,064,990	1,075,266	10,276
Investment income	310,000	532,500	533,455	955
Other	11,500	36,286	30,933	(5,353)
Total revenues	<u>16,660,464</u>	<u>18,405,291</u>	<u>18,644,386</u>	<u>239,095</u>
EXPENDITURES:-				
Current:-				
General government	3,184,050	3,154,441	3,117,479	36,962
Security of persons and property	12,037,789	12,156,592	11,754,985	401,607
Leisure time activity	635,645	623,916	594,564	29,352
Community environment	368,000	380,498	380,498	0
Transportation	338,829	352,585	321,413	31,172
Total expenditures	<u>16,564,313</u>	<u>16,668,032</u>	<u>16,168,939</u>	<u>499,093</u>
Excess of revenues over expenditures	<u>96,151</u>	<u>1,737,259</u>	<u>2,475,447</u>	<u>738,188</u>
OTHER FINANCING SOURCES (USES):-				
Other financing sources	218,000	291,798	284,880	(6,918)
Other financing uses	(280,000)	(317,652)	(308,262)	9,390
Sale of capital assets	7,500	5,492	5,492	0
Transfers out	(1,090,802)	(1,723,605)	(1,712,203)	11,402
Advances in	0	0	444,879	444,879
Advances out	0	0	(390,945)	(390,945)
Total other financing sources (uses)	<u>(1,145,302)</u>	<u>(1,743,967)</u>	<u>(1,676,159)</u>	<u>67,808</u>
Net change in fund balance	(1,049,151)	(6,708)	799,288	805,996
Fund balance at beginning of year	2,443,540	2,443,540	2,443,540	0
Prior year encumbrances appropriated	<u>108,200</u>	<u>108,200</u>	<u>108,200</u>	<u>0</u>
Fund balance at end of year	<u>\$ 1,502,589</u>	<u>\$ 2,545,032</u>	<u>\$ 3,351,028</u>	<u>\$ 805,996</u>

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
STREET FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:-				
Municipal income taxes	\$ 1,065,858	\$ 1,198,123	\$ 1,225,649	\$ 27,526
Permissive MVL	176,546	155,587	155,587	0
Intergovernmental	1,225,000	1,683,753	1,674,539	(9,214)
Charges for services	4,500	6,240	5,639	(601)
Fines, licenses and permits	22,000	20,200	15,400	(4,800)
Investment income	2,000	15,000	14,575	(425)
Donations	1,350	1,350	1,000	(350)
Other	1,000	1,000	237	(763)
Total revenues	<u>2,498,254</u>	<u>3,081,253</u>	<u>3,092,626</u>	<u>11,373</u>
EXPENDITURES:-				
Current:-				
Transportation	<u>2,634,999</u>	<u>3,283,667</u>	<u>2,969,767</u>	<u>313,900</u>
Total expenditures	<u>2,634,999</u>	<u>3,283,667</u>	<u>2,969,767</u>	<u>313,900</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(136,745)</u>	<u>(202,414)</u>	<u>122,859</u>	<u>325,273</u>
OTHER FINANCING SOURCES (USES):-				
Other financing sources	2,500	13,500	12,601	(899)
Sale of capital assets	1,000	227	227	0
Transfers out	<u>(3,000)</u>	<u>(165,077)</u>	<u>(165,064)</u>	<u>13</u>
Total other financing sources (uses)	<u>500</u>	<u>(151,350)</u>	<u>(152,236)</u>	<u>(886)</u>
Net change in fund balance	(136,245)	(353,764)	(29,377)	324,387
Fund balance at beginning of year	348,792	348,792	348,792	0
Prior year encumbrances appropriated	<u>239,797</u>	<u>239,797</u>	<u>239,797</u>	<u>0</u>
Fund balance at end of year	<u>\$ 452,344</u>	<u>\$ 234,825</u>	<u>\$ 559,212</u>	<u>\$ 324,387</u>

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006

	<u>Business-type Activities -Enterprise Funds</u>				<u>Total Enterprise Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Sewer</u>	<u>Sanitation</u>	<u>Storm Sewer</u>	<u>Other Enterprise</u>		
ASSETS:-						
Current assets:-						
Equity in pooled cash and cash equivalents	\$ 2,773,445	\$ 739,171	\$ 2,842,930	\$ 5,748	\$ 6,361,294	\$ 208,538
Receivables (net of allowance for uncollectibles):-						
Accounts	1,670,737	987,822	440,513	1,198	3,100,270	0
Due from other funds	1,915	0	0	0	1,915	0
Due from other governments	4,804	4,283	0	168,995	178,082	0
Prepayments	63,104	15,034	5,891	10,105	94,134	5,096
Materials and supplies inventory	61,663	0	0	0	61,663	152,416
Total current assets	<u>4,575,668</u>	<u>1,746,310</u>	<u>3,289,334</u>	<u>186,046</u>	<u>9,797,358</u>	<u>366,050</u>
Noncurrent assets:-						
Capital assets:-						
Land and construction in progress	258,321	40,886	0	36,000	335,207	0
Depreciable capital assets, net	38,021,484	626,025	8,529,180	331,846	47,508,535	2,404,980
Total capital assets	<u>38,279,805</u>	<u>666,911</u>	<u>8,529,180</u>	<u>367,846</u>	<u>47,843,742</u>	<u>2,404,980</u>
Total assets	<u>42,855,473</u>	<u>2,413,221</u>	<u>11,818,514</u>	<u>553,892</u>	<u>57,641,100</u>	<u>2,771,030</u>
LIABILITIES:-						
Current liabilities:-						
Accounts payable	104,544	55,369	37,920	1,137	198,970	16,552
Accrued wages and benefits	26,917	12,846	0	7,067	46,830	5,808
Due to other funds	0	1,221	0	35	1,256	0
Due to other governments	54,404	26,995	7,897	20,156	109,452	13,363
Notes payable	2,635,000	0	2,090,000	0	4,725,000	1,500,000
Capital lease payable	0	77,634	0	0	77,634	0
Loans payable	1,481,201	140,736	13,085	0	1,635,022	0
Bonds payable	110,000	0	200,000	0	310,000	0
Total current liabilities	<u>4,412,066</u>	<u>314,801</u>	<u>2,348,902</u>	<u>28,395</u>	<u>7,104,164</u>	<u>1,535,723</u>
Long-term liabilities:-						
Compensated absences	395,115	81,971	0	77,670	554,756	87,689
Capital lease payable	0	121,404	0	0	121,404	0
Closure/postclosure payable	0	2,538,756	0	0	2,538,756	0
Loans payable	22,870,754	1,373,104	195,823	0	24,439,681	0
Bonds payable	2,020,000	0	3,700,000	0	5,720,000	0
Total long-term liabilities	<u>25,285,869</u>	<u>4,115,235</u>	<u>3,895,823</u>	<u>77,670</u>	<u>33,374,597</u>	<u>87,689</u>
Total liabilities	<u>29,697,935</u>	<u>4,430,036</u>	<u>6,244,725</u>	<u>106,065</u>	<u>40,478,761</u>	<u>1,623,412</u>
NET ASSETS:-						
Invested in capital assets, net of related debt	9,162,850	(1,045,967)	2,330,272	367,846	10,815,001	904,980
Unrestricted (deficit)	3,994,688	(970,848)	3,243,517	79,981	6,347,338	242,638
Total net assets	<u>\$ 13,157,538</u>	<u>\$ (2,016,815)</u>	<u>\$ 5,573,789</u>	<u>\$ 447,827</u>	<u>17,162,339</u>	<u>\$ 1,147,618</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.					(635)	
Net assets of business-type activities					<u>\$ 17,161,704</u>	

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	Sanitation	Storm Sewer	Other Enterprise		
OPERATING REVENUES:-						
Charges for services	\$ 5,650,106	\$ 2,395,501	\$ 1,234,383	\$ 159,353	\$ 9,439,343	\$ 829,481
Other	140	16,868	0	6,309	23,317	6,998
Total operating revenues	5,650,246	2,412,369	1,234,383	165,662	9,462,660	836,479
OPERATING EXPENSES:-						
Personal services	1,678,893	902,765	396,521	643,899	3,622,078	444,829
Travel and transportation	473,384	775,351	141,696	167,162	1,557,593	90,728
Contract services	415,496	69,150	86,514	87,264	658,424	140,033
Materials and supplies	1,506,862	77,800	214,136	84,518	1,883,316	80,940
Depreciation	0	0	0	1,580	1,580	0
Total operating expenses	4,074,635	1,825,066	838,867	984,423	7,722,991	756,530
Operating income (loss)	1,575,611	587,303	395,516	(818,761)	1,739,669	79,949
NONOPERATING REVENUES (EXPENSES):-						
Gain/(loss) on sale of capital assets	87	0	350	(267)	170	0
Interest revenue	25,030	0	0	0	25,030	0
Intergovernmental	233,416	998	19,396	705,677	959,487	0
Interest expense and fiscal charges	(644,895)	(78,490)	(299,003)	0	(1,022,388)	(69,707)
Other non-operating revenues	31,493	0	52,851	503	84,847	0
Other non-operating expense	0	0	0	(1,760)	(1,760)	0
Total nonoperating revenues (expenses)	(354,869)	(77,492)	(226,406)	704,153	45,386	(69,707)
Income (loss) before transfers	1,220,742	509,811	169,110	(114,608)	1,785,055	10,242
Transfers in	0	0	0	214,848	214,848	135,260
Changes in net assets	1,220,742	509,811	169,110	100,240	1,999,903	145,502
Net assets (deficit) at beginning of year	11,936,796	(2,526,626)	5,404,679	347,587		1,002,116
Net assets (deficit) at end of year	\$ 13,157,538	\$ (2,016,815)	\$ 5,573,789	\$ 447,827		\$ 1,147,618
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.					(4,565)	
Changes in net assets of business-type activities					<u>\$ 1,995,338</u>	

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Governmental Activities - Internal Service Funds
	Sewer	Sanitation	Storm Sewer	Other Enterprise		
Cash flows from operating activities:-						
Cash received from customers	\$ 5,287,283	\$ 2,215,732	\$ 1,196,470	\$ 160,921	\$ 8,860,406	\$ 838,893
Cash received from other operations	140	16,869	0	6,154	23,163	6,997
Cash payments for personnal services	(1,632,837)	(915,696)	(388,863)	(643,115)	(3,580,511)	(420,578)
Cash payments for contract services	(450,391)	(859,680)	(153,031)	(177,272)	(1,640,374)	(94,728)
Cash payments for materials and supplies	(410,377)	(69,117)	(83,843)	(87,284)	(650,621)	(189,703)
Cash payments for other operating expenses	0	0	0	(1,580)	(1,580)	0
Cash payments for travel and transportation	(565)	0	0	(478)	(1,043)	(154)
Net cash provided by (used in) operating activities	<u>2,793,253</u>	<u>388,108</u>	<u>570,733</u>	<u>(742,654)</u>	<u>3,009,440</u>	<u>140,727</u>
Cash flows from noncapital financing activities:-						
Cash received from transfers in	0	0	0	214,848	214,848	135,260
Cash used for repayment of advance	0	0	0	(66,000)	(66,000)	0
Cash received from grants and subsidies	251,893	0	22,157	592,253	866,303	0
Cash used for nonoperating revenues	46,560	0	53,969	523	101,052	0
Net cash provided by noncapital financing activities	<u>298,453</u>	<u>0</u>	<u>76,126</u>	<u>741,624</u>	<u>1,116,203</u>	<u>135,260</u>
Cash flows from capital and related financing activities:						
Principal retirement on loans	(1,457,367)	(134,808)	(13,085)	0	(1,605,260)	0
Principal retirement on bonds	(105,000)	0	(190,000)	0	(295,000)	0
Principal retirement on notes	(2,635,000)	0	(2,090,000)	0	(4,725,000)	(1,780,000)
Principal retirement on leases	0	(75,094)	0	0	(75,094)	0
Interest and fiscal charges	(644,896)	(78,490)	(299,003)	0	(1,022,389)	(69,707)
Proceeds of notes	2,635,000	0	2,090,000	0	4,725,000	1,500,000
Acquisition of capital assets	(1,447,560)	(1,276)	(1,574,982)	(2,202)	(3,026,020)	(5,752)
Net cash used in capital and related financing activities	<u>(3,654,823)</u>	<u>(289,668)</u>	<u>(2,077,070)</u>	<u>(2,202)</u>	<u>(6,023,763)</u>	<u>(355,459)</u>
Cash flows from investing activities:-						
Interest received	25,030	0	0	0	25,030	0
Net cash provided by investing activities	<u>25,030</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,030</u>	<u>0</u>
Net increase (decrease) in cash and cash equivalents	(538,087)	98,440	(1,430,211)	(3,232)	(1,873,090)	(79,472)
Cash and cash equivalents at beginning of year	3,311,532	640,731	4,273,141	8,980	8,234,384	288,010
Cash and cash equivalents at end of year	<u>\$ 2,773,445</u>	<u>\$ 739,171</u>	<u>\$ 2,842,930</u>	<u>\$ 5,748</u>	<u>\$ 6,361,294</u>	<u>\$ 208,538</u>

- - continued

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>				<u>Total Enterprise Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Sewer</u>	<u>Sanitation</u>	<u>Storm Sewer</u>	<u>Other Enterprise</u>		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:-						
Operating income (loss)	\$ 1,575,611	\$ 587,303	\$ 395,516	\$ (818,761)	\$ 1,739,669	\$ 79,949
Adjustments:-						
Depreciation	1,506,862	77,800	214,136	84,518	1,883,316	80,940
Changes in assets and liabilities:-						
Decrease in materials and supplies inventory	4,908	0	0	0	4,908	(13,602)
(Increase) decrease in accounts receivable	(354,401)	(186,719)	(37,913)	580	(578,453)	0
(Increase) decrease in due from other funds	(3,288)	0	0	(117)	(3,405)	9,412
(Increase) decrease in prepayments	(1,943)	(1,102)	(2,606)	(1,205)	(6,856)	372
(Increase) decrease in due from other governments	(2,870)	950	0	458	(1,462)	0
Increase (decrease) in accounts payable	21,662	(43)	(5,443)	143	16,319	(40,742)
Increase (decrease) in accrued wages and benefits	898	1,084	0	222	2,204	96
Increase (decrease) in due to other funds	0	1,221	(854)	(9,377)	(9,010)	98
Increase (decrease) in due to other governments	(11,142)	(1,705)	7,897	(904)	(5,854)	(1,252)
Increase (decrease) in compensated absences payable	56,956	(12,028)	0	1,789	46,717	25,456
Decrease in landfill closure liability	0	(78,653)	0	0	(78,653)	0
Net cash provided by (used in) operating activities	<u>\$ 2,793,253</u>	<u>\$ 388,108</u>	<u>\$ 570,733</u>	<u>\$ (742,654)</u>	<u>\$ 3,009,440</u>	<u>\$ 140,727</u>
Non-cash activities:						
At December 31, 2006, capital assets purchased on account	20,447	0	30,604	0	51,051	0
At December 31, 2005, capital assets purchased on account	112,663	0	212,153	0	324,816	0

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006

	Agency
ASSETS:-	
Equity in pooled cash and cash equivalents	\$ 152,305
Receivables:	
Accounts	6,267
Total assets	\$ 158,572
 LIABILITIES:-	
Due to other governments	\$ 49,385
Undistributed monies	109,187
Total liabilities	\$ 158,572

See accompanying Notes to the Basic Financial Statements.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - DESCRIPTION OF THE CITY:-

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB Statements and Interpretations. The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City, this includes the municipal court, health department, and all departments that are directly operated by the elected City officials.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

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 organizations' 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 organizations resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the City has no component units. The basic financial statements of the reporting entity include only those of the City (the primary government). The following organizations are described due to their relationship to the City:

JOINTLY GOVERNED ORGANIZATIONS:-

Marion County Disaster Services Board - The Marion County Disaster Services Board (the "Board") is governed by the City, fifteen townships, seven villages, and Marion County. Under the authority of Ohio Revised Code Section 5915.06, the five members of the advisory council are appointed as follows: one county commissioner, one township trustee appointed by all of the trustees, one mayor appointed by all of the villages or their appointed designee, one member from the city, and one member appointed by the other four members. The Board does not have any outstanding debt. In 2006, the City paid membership dues of \$12,000 to the operation of the Board. Information can be obtained from the Marion County Disaster Services Board, Don Caprino, 200 South Elm Street, Prospect, Ohio 43342.

Marion County Regional Planning Commission - The City participates in the Marion County Regional Planning Commission (the "Commission"), which is a statutorily created political subdivision of the State. The Commission is jointly governed among the County, the municipalities, and the townships. The Commission makes studies, maps, plans, recommendations, and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions, and services within the County.

In 2006, the City paid fees of \$78,000 toward the operation of the Commission. Information can be obtained from the Marion County Regional Planning Commission, Ken Lengieza, 222 West Center Street, Marion, Ohio 43302.

Marion County Family and Children First Council - The Marion County Family and Children First Council (the "Council") provides services to multi-need youth in Marion County. There are fifteen organizations, which are members of the Council, including the City. The operation of the Council is controlled by a board consisting of representatives of the member organizations. Members refer cases to the Council who determines how the case is to be handled. In 2006, the City paid membership dues of \$500 toward the operation of the Council.

B. Basis of Presentation - Fund Accounting

The City's financial statements consist of government-wide 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.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service funds are eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City’s governmental activities and for the business-type activities of the City. 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 on grants 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 business segment or governmental functions are self-financing or draw 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 funds are presented in a single column on the face of the proprietary fund financial statements. Fiduciary funds are reported by type.

C. 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. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions typically 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 purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Street - The street fund accounts for all transactions relating to street maintenance and construction.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds - The 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 - This fund accounts for the provision of wastewater treatment service to its residential and commercial users located within the City.

Storm Sewer - This fund accounts for the provision of storm water utility to the residents and commercial users located within the City.

Sanitation - This fund accounts for the provision of sanitation service to the residents and commercial users located with the City.

Internal Service Funds - The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service funds report on the operations of the service garage and utility billings.

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 therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. During 2006, the City did not have any trust funds. The City's only fiduciary funds are agency funds. The City's agency funds account for donations for recreation programs, donations for juvenile safety awareness, donations and fines for law enforcement investigations and training, assets held by the City for distribution to others in which the City acts as fiscal agent, and fines and forfeitures collected and distributed to other political subdivisions.

D. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of 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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

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

E. 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 and agency funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions - Revenue 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (see Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6). 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 a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees, and special assessments.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

Expenses/Expenditures - On the accrual basis of accounting, 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.

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the program level for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget - During the first Council meeting in July, the City Manager presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2006.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the transfers, advances, and total of all other expenditures for all funds. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the final appropriation amounts, including all amendments and modifications legally enacted by Council.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not re-appropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately for the City by fiscal or escrow agents and not held with the City Treasurer are recorded as "Cash and Cash Equivalents with Fiscal Agents" on the financial statements. On December 31, 2006, the City had a balance of \$288.

During 2006, investments were limited to nonnegotiable certificates, federal agency securities, and the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposits, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2006 amounted to \$559,523 which included \$416,306 assigned from other funds of the City.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents. An analysis of the City's investment account at year-end is provided in Note 4.

H. Inventories of Materials and Supplies

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventories are accounted for using the consumption method. Inventories consist of expendable supplies held for consumption. On the governmental fund statements, fund balance has been reserved for inventory balances at year-end since the amounts do not constitute expendable available resources.

I. Prepayments

Prepayments made to vendors for services that will benefit periods beyond December 31, 2006, 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 the services are consumed. On the governmental fund statements, fund balance has been reserved for prepaid balances at year-end since the amounts do not constitute expendable available resources.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$500. The City's buildings and structures consist of buildings, sewer lines, and storm sewers. 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. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

<u>Description</u>	<u>Estimated Useful Lives</u>
Land Improvements	10 - 25 years
Streets	15 years
Buildings, structures, and lines	10 - 40 years
Machinery and Equipment	5 - 15 years
Furniture and Fixtures	10 years
Trucks, Autos, and Buses	5 - 10 years

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

K. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with GASB Statement No. 16, "Accounting for 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 that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

N. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after 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.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

O. Fund Balance Reserves

Reserved fund balances indicate the portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, debt service, notes receivable, prepayments, and materials and supplies inventory in the governmental fund financial statements.

P. Estimates

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS and accompanying notes. Actual results may differ from those estimates.

Q. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

R. 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 balances 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 the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

S. Operating Revenues and Expenses

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE:-

A. Change in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Prior Period Adjustment

At December 31, 2005, an OPWC loan with a balance outstanding of \$13,681 was included in the Storm Sewer fund and should have been recorded as a liability in the Sewer fund. Net assets have been restated as follows:

	Sewer	Storm Sewer
Net assets, December 31, 2005	\$11,950,477	\$5,390,998
Adjustment	(13,681)	13,681
Net assets, January 1, 2006, restated	\$11,936,796	\$5,404,679

C. Deficit Fund Balances/Net Assets

Fund balance net assets at December 31, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
Sanitation	\$ 2,016,815
<u>Nonmajor Fund</u>	
Violence Against Women	\$ 5,397
Health	16,257
WIC	13,419
School Resource Officer	4,882
Police and Fire Pension	251
DRIP Infrastructure	21,673
Quarry Park II	29,726
Street Improvement	775,000

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments in accrued liabilities.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE:- (continued)

The Sanitation enterprise fund has deficit net assets in the amount of \$2,016,815 as a result of recording loan payable amounts and landfill post closure liability on the Statement of Fund Net Assets. The general fund provides operating transfers upon City Council's approval when cash is required, not when accruals occur.

NOTE 4 - 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 that 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 in 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 finance director by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities 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 provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENT:- (continued)

7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

The City may also invest monies not required for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons;
3. Obligations of the City.

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 treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Petty Cash

At December 31, 2006, the City had \$1,960 in undeposited cash on hand. The amount is reported as "Petty Cash" on the financial statements.

B. Cash with Fiscal Agent

At December 31, 2006, \$288 was on deposit with the City's fiscal agent and is not included in the total amount of deposits. This total is reported on the financial statements as "Cash and Cash Equivalents with Fiscal Agents".

C. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$4,266,070. As of December 31, 2006, \$3,822,038 of the City's bank balance of \$4,962,090 was exposed to custodial risk as discussed below, while \$1,140,052 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk 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. As permitted by Ohio Revised Code, the City's deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all 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, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS:- (continued)

D. Investments

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Balance at</u> <u>Fair Value</u>	<u>6 Months</u> <u>or Less</u>	<u>7 to 12</u> <u>Months</u>	<u>Investment Maturities</u>		
				<u>13 to 18</u> <u>Months</u>	<u>19 to 24</u> <u>Months</u>	<u>Greater than</u> <u>24 Months</u>
FHLB	\$ 5,583,175	\$0	\$ 1,261,397	\$ 227,809	\$ 1,507,772	\$ 2,586,197
FNMA	1,737,184	0	998,045	491,404	0	247,735
FHLM	1,296,569	0	299,526	0	997,043	0
US Govt. Money Market	5	5	0	0	0	0
STAR Ohio	196,764	196,764	0	0	0	0
Municipal Bonds	454,000	0	0	0	0	454,000
Total	\$ 9,267,697	\$ 196,769	\$ 2,558,968	\$ 719,213	\$ 2,504,815	\$ 3,287,932

The weighted average maturity of investments is 2.63 years.

Interest Rate Risk: The Ohio Revised Code general limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk by requiring the consideration of market conditions and cash flow requirements in determining the term of an investment.

Credit Risk: The City's investments in federal agency securities carry a rating of AAA by Standard & Poor's and Aaa by Moody's. STAR Ohio carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

Concentration of Credit Risk: The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 5,583,175	60.24%
FNMA	1,737,184	18.74%
FHLM	1,296,569	13.99%
US Govt. Money Market	5	0.00%
STAR Ohio	196,764	2.12%
Municipal Bonds	454,000	4.90%
	<u>\$ 9,267,697</u>	<u>100.00%</u>

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS:- (continued)

E. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 4,266,070
Investments	9,267,697
Cash on hand	1,960
Cash with fiscal agent	<u>288</u>
Total	<u>\$ 13,536,015</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 6,992,014
Business type activities	6,391,696
Agency funds	<u>152,305</u>
Total	<u>\$ 13,536,015</u>

NOTE 5 - INTERFUND TRANSFERS:-

Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported in the fund financial statements:

<u>Transfers to</u>	<u>Transfers From</u>			<u>Total</u>
	<u>General</u>	<u>Street</u>	<u>Nonmajor Funds</u>	
Nonmajor funds	\$ 1,497,355	\$ 29,804	\$ 131,210	\$ 1,658,369
Internal service fund	0	135,260	0	135,260
Nonmajor enterprise	214,848	0	0	214,848
Total	<u>\$ 1,712,203</u>	<u>\$ 165,064</u>	<u>\$ 131,210</u>	<u>\$ 2,008,477</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Transfers between governmental activities are eliminated on the statement of activities.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PROPERTY TAXES:-

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2006 represent the collection of 2006 taxes. Real property taxes received in 2006 were levied after October 1, 2006, on the assessed values as of January 1, 2006, 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 2006 represent the collection of 2006 taxes. Public utility real and tangible personal property taxes received in 2006 became a lien on December 31, 2005, were levied after October 1, 2006, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2006, on the true value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006 – 2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes, which were measurable as of December 31, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2006 operations. The portion of the receivable not levied to finance current year operations is offset by a credit to deferred revenue.

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

The full tax rates applied to real property for the fiscal year ended December 31, 2006, per taxing district, per \$1,000 of assessed valuation are as follows:

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

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PROPERTY TAXES:- (continued)

The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

Category	Amount
Real Property	\$ 345,468,470
Public Utility Property	21,064,560
Tangible Personal Property	<u>21,595,988</u>
Total Assessed Value	<u>\$ 388,129,018</u>

NOTE 7 - MUNICIPAL INCOME TAX:-

The City levies and collects an income tax of 1¾% 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% of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax is credited to the General Fund, Street Fund, Bond Retirement Fund, and the Capital Improvement Fund.

NOTE 8 - RECEIVABLES:-

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as “Due From Other Governments” on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2006, as well as intended to finance fiscal 2006 operations.

Notes receivable represent an agreement with Marion Senior Housing Partnership to pay the City the amount necessary to retire taxable housing bonds issues related to the Harding Centre Project and low interest loans for development projects granted to eligible City businesses under the Federal Community Block Grant program. The loans have an annual interest rate of 3% to 5% and are to be repaid over periods ranging from three to twenty years. Principal in the amount of \$29,135 was repaid during the year. Loans outstanding at December 31, 2006 were \$1,138,742.

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

	Sewer	Storm Sewer	Sanitation	Other Enterprise Funds	Total Enterprise Funds
Accounts Receivable	\$ 1,747,737	\$ 463,513	\$ 1,102,822	\$ 1,198	\$ 3,315,270
Less: Allowance for Uncollectible Accounts	<u>(77,000)</u>	<u>(23,000)</u>	<u>(115,000)</u>	<u>0</u>	<u>(215,000)</u>
Net Accounts Receivable	<u>\$ 1,670,737</u>	<u>\$ 440,513</u>	<u>\$ 987,822</u>	<u>\$ 1,198</u>	<u>\$ 3,100,270</u>

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 – RECEIVABLES:- (continued)

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:-

Income taxes	\$ 2,441,402
Real and other taxes	1,536,849
Payment in lieu of taxes	466,952
Accounts	164,972
Accrued interest	552
Special assessments	82,633
Due from other governments	<u>3,023,150</u>
Total governmental activities	7,716,510

Business-type Activities:-

Accounts	3,100,270
Due from other governments	<u>177,984</u>
Total business-type activities	<u>3,278,254</u>

Total receivables	<u><u>\$ 10,994,764</u></u>
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments, which are collected over the life of the assessment.

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE:-

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

	<u>Governmental</u>
	<u>Activities</u>
Property under capital lease	\$ 382,190
Less accumulated depreciation	<u>(73,631)</u>
Total December 31, 2006	<u><u>\$ 308,559</u></u>

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE:- (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2006. Principal payments were made out of the sanitation fund in the amount of \$75,094 during 2006.

Fiscal Year Ending <u>December 31,</u>	<u>Business-Type Activities</u>
2007	83,318
2008	83,318
2009	<u>41,660</u>
Total minimum lease payments	208,296
Less amount representing interest	<u>(9,258)</u>
Present value of minimum lease payments	<u>\$ 199,038</u>

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS:-

A. Capital asset activity for the governmental activities for the year ended December 31, 2006, was as follows:

	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 7,172,883	\$ 195,000	\$ 0	\$ 7,367,883
Construction in progress	2,626,348	161,262	(1,515,236)	1,272,374
Total capital assets, not being depreciated	<u>9,799,231</u>	<u>356,262</u>	<u>(1,515,236)</u>	<u>8,640,257</u>
<i>Capital assets, being depreciated:</i>				
Land improvements and streets	35,034,470	1,400,497	0	36,434,967
Buildings, structures and lines	7,596,371	0	0	7,596,371
Machinery and equipment	3,164,535	246,333	(82,376)	3,328,492
Furniture and fixtures	263,557	1,290	0	264,847
Vehicles	3,807,348	151,091	(215,684)	3,742,755
Total capital assets, being depreciated	<u>49,866,281</u>	<u>1,799,211</u>	<u>(298,060)</u>	<u>51,367,432</u>
<i>Less: accumulated depreciation</i>				
Land improvements and streets	(19,000,829)	(1,931,996)	0	(20,932,825)
Buildings, structures and lines	(3,044,931)	(189,940)	0	(3,234,871)
Machinery and equipment	(1,981,041)	(220,567)	68,857	(2,132,751)
Furniture and fixtures	(221,290)	(11,938)	0	(233,228)
Vehicles	(2,394,776)	(270,661)	203,662	(2,461,775)
Total accumulated depreciation	<u>(26,642,867)</u>	<u>(2,625,102)</u>	<u>272,519</u>	<u>(28,995,450)</u>
Capital assets being depreciated, net	<u>23,223,414</u>	<u>(825,891)</u>	<u>(25,541)</u>	<u>22,371,982</u>
Governmental activities capital assets, net	<u>\$ 33,022,645</u>	<u>\$ (469,629)</u>	<u>\$ (1,540,777)</u>	<u>\$ 31,012,239</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 134,151
Security of persons and property	317,374
Public health and welfare	9,073
Community environment	12,200
Transportation	1,957,377
Leisure time activity	117,897
Internal Service - Central Garage	<u>77,030</u>
Total depreciation expense - governmental activities	<u>\$ 2,625,102</u>

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS:- (continued)

B. Capital asset activity for the business-type activities for the year ended December 31, 2006 was as follows:

<u>Business-type Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 325,457	\$ 9,750	\$ ()	(\$ 335,207
Construction in progress	<u>3,083,144</u>	<u>2,327,296</u>	<u>(5,410,440)</u>	<u>0</u>
Total capital assets, not being depreciated	<u>3,408,601</u>	<u>2,337,046</u>	<u>(5,410,440)</u>	<u>335,207</u>
<i>Capital assets, being depreciated:</i>				
Land and improvements	1,761,406	0	0	1,761,406
Building, structures and lines	53,201,404	5,410,440	0	58,611,844
Machinery and equipment	2,330,032	123,176	(2,380)	2,450,828
Furniture and fixtures	72,461	0	0	72,461
Vehicles	<u>2,607,360</u>	<u>293,000</u>	<u>(500)</u>	<u>2,899,860</u>
Total capital assets, being depreciated	<u>59,972,663</u>	<u>5,826,616</u>	<u>(2,880)</u>	<u>65,796,399</u>
<i>Less: accumulated depreciation:</i>				
Land and improvements	(1,605,792)	(23,802)	0	(1,629,594)
Building, structures and lines	(11,465,633)	(1,538,036)	0	(13,003,669)
Machinery and equipment	(1,532,080)	(145,542)	2,114	(1,675,508)
Furniture and fixtures	(59,457)	(2,296)	0	(61,753)
Vehicles	<u>(1,736,140)</u>	<u>(177,551)</u>	<u>250</u>	<u>(1,913,441)</u>
Total accumulated depreciation	<u>(16,399,102)</u>	<u>(1,887,227)</u>	<u>2,364</u>	<u>(18,283,965)</u>
Total capital assets being depreciated, net	<u>43,573,561</u>	<u>3,939,389</u>	<u>(516)</u>	<u>47,512,434</u>
Business-type activities capital assets, net	<u>\$ 46,982,162</u>	<u>\$ 6,276,435</u>	<u>\$ (5,410,956)</u>	<u>\$ 47,847,641</u>

Depreciation expense was charged to various departments of the City as follows:

<u>Business-type activities:</u>	
Sewer	\$ 1,506,861
Sanitation	77,801
Storm sewer	214,136
Pool	17,606
Transportation	66,913
Internal Service - Utility Billing	<u>3,910</u>
Total depreciation expense - business-type activities	<u>\$ 1,887,227</u>

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - OTHER EMPLOYEE BENEFITS:-

A. Compensated Absences

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

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

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

B. Health Care Benefits

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

NOTE 12 - LONG-TERM OBLIGATIONS

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

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
General Obligation Bonds:			
Harding Centre	1999	5.250%	600,000
Various Purpose	2001	5.194%	\$ 8,730,000
OPWC Loans:			
Sewer Improvements	1995	0%	700,000
Sewer Improvements	2000	0%	157,168
WWTP Upgrade	2001	0%	1,070,800
Williamsport Rd Improvement	2002	0%	128,202
Storm Sewer Improvements	2002	0%	119,185
Sewer Improvements	2003	0%	142,027
Storm Sewer Improvements	2003	0%	126,963
OWDA Loans:			
Landfill Closure	1996	4.350%	2,720,754
Sewer Improvements	1997	4.560%	2,140,055
Land Improvement	1998	4.250%	2,020,033
WWTP Upgrade	2002	1.500%	25,933,112

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - LONG-TERM OBLIGATIONS: - (continued)

The City's long term obligations at December 31, 2006 were as follows:

	Balance			Balance	Amounts
	12/31/05	Additions	Reductions	12/31/06	Due in
<u>Governmental Activities</u>					<u>One Year</u>
<u>General Obligation Bonds</u>					
Taxable Housing Bonds	\$ 478,000	\$ 0	\$ (24,000)	\$ 454,000	\$ 25,000
Police and Fire Pension Bonds	955,000	0	(45,000)	910,000	45,000
Total General Obligation Bonds	<u>1,433,000</u>	<u>0</u>	<u>(69,000)</u>	<u>1,364,000</u>	<u>70,000</u>
<u>Loans</u>					
ODOT DRIP TIF Loan	1,428,541	0	(153,414)	1,275,127	160,003
OPWC Loan	105,767	0	(6,410)	99,357	6,410
Fire Truck Loan	647,798	0	(63,603)	584,195	66,067
Total Loans	<u>2,182,106</u>	<u>0</u>	<u>(223,427)</u>	<u>1,958,679</u>	<u>232,480</u>
<u>Other Debt</u>					
Compensated Absences	3,709,586	324,364	0	4,033,950	0
Total governmental activities	<u>\$ 7,324,692</u>	<u>\$ 324,364</u>	<u>\$ (292,427)</u>	<u>\$ 7,356,629</u>	<u>\$ 302,480</u>
<u>Business-type Activities</u>					
OWDA Loans	\$ 25,941,525	\$ 0	\$ (1,485,372)	\$ 24,456,153	\$ 1,515,134
OPWC Loans	1,738,438	0	(119,888)	1,618,550	119,888
Sewer Bonds	2,235,000	0	(105,000)	2,130,000	110,000
Storm Bonds	4,090,000	0	(190,000)	3,900,000	200,000
Landfill Closure/Postclosure	2,617,409	0	(78,653)	2,538,756	0
Capital Lease payable	274,132	0	(75,094)	199,038	77,634
Compensated Absences	535,061	61,853	(12,028)	584,886	0
Total Business-Type Activities	<u>\$ 37,431,565</u>	<u>\$ 61,853</u>	<u>\$ (2,066,035)</u>	<u>\$ 35,427,383</u>	<u>\$ 2,022,656</u>

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

ODOT DRIP TIF Loan and Fire Truck Loan - The Loan from ODOT is for a new industrial park road beginning at the southeastern most corner of the land owned by the City of Marion and the centerline intersection of the Fairground street right-of-way. The proceeds of the Fire Truck loan were used to purchase a Fire Truck for the City Fire Department.

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

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - LONG-TERM OBLIGATIONS: - (continued)

Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) - The OWDA and OPWC loans are for utility construction projects. Property and revenue of the utility facilities have been pledged to repay these debts.

During 2001, the City entered into a loan agreement with the Ohio Environmental Protection Agency and the Ohio Water Development Authority for the upgrade of a wastewater treatment plant. As part of the loan agreement, the City agreed to participate in the Ohio EPA's Water Resource Restoration Sponsor Program (WRRSP) to provide an amount not to exceed \$6 million to North Coast Regional Council of Park Districts Erie Metroparks for an environmental improvement project. Under the loan agreement, the City's loan was restructured by (a) increasing the principal amount of the loan by an amount not to exceed \$6 million, and (b) reducing the loan's interest rate to a percentage that reflects a savings equal to the principal and interest cost of the WRRSP project. As of December 31, 2006, the City has outstanding borrowings of \$24,456,153.

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

The City's legal debt margin was \$40,540,891, with an unvoted debt margin of \$21,134,440 at December 31, 2006.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	70,000	70,246	160,003	52,511	6,410	0
2008	77,000	66,789	166,875	45,638	6,410	0
2009	78,000	62,995	174,042	38,471	6,410	0
2010	84,000	59,124	181,518	30,995	6,410	0
2011	86,000	54,909	189,315	23,199	6,410	0
2012 - 2016	506,000	201,619	403,374	21,654	32,051	0
2017 - 2021	463,000	56,636	0	0	32,051	0
2022 - 2023	0	0	0	0	3,205	0
Total	\$ 1,364,000	\$ 572,318	\$ 1,275,127	\$ 212,468	\$ 99,357	\$ -

<u>Conventional Fire Truck Loan</u>		
<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	66,067	21,377
2008	68,628	18,817
2009	71,287	16,158
2010	74,049	13,395
2011	76,919	10,526
2012 - 2015	227,245	13,227
Total	\$ 584,195	\$ 93,500

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - LONG-TERM OBLIGATIONS: - (continued)

Year	OPWC Loans - Sewer		Business-Type Activities OWDA Loans - Sewer		GO Bonds - Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	106,803	0	1,374,398	403,774	110,000	110,135
2008	106,803	0	1,398,752	379,561	115,000	105,020
2009	106,803	0	1,423,641	354,815	120,000	99,615
2010	106,803	0	1,449,082	329,519	125,000	93,915
2011	106,804	0	1,475,091	303,657	130,000	87,915
2012 - 2016	437,822	0	7,697,280	1,109,338	765,000	331,300
2017 - 2021	306,627	0	7,518,446	487,502	765,000	106,380
2022 - 2023	131,177	0	605,623	35,333	0	0
Total	<u>\$ 1,409,642</u>	<u>\$ -</u>	<u>\$ 22,942,313</u>	<u>\$ 3,403,499</u>	<u>\$ 2,130,000</u>	<u>\$ 934,280</u>

Year	OPWC Loans - Storm		GO Bond - Storm		OWDA Loan - Sanitation	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	13,085	0	200,000	201,685	140,736	64,338
2008	13,085	0	210,000	192,385	146,925	58,149
2009	13,085	0	220,000	182,515	153,386	51,688
2010	13,085	0	230,000	172,065	160,130	44,944
2011	13,085	0	240,000	161,025	167,172	37,902
2012 - 2016	65,425	0	1,395,000	608,085	745,491	74,805
2017 - 2021	65,425	0	1,405,000	194,130	0	0
2022 - 2024	12,633	0	0	0	0	0
Total	<u>\$ 208,908</u>	<u>\$ -</u>	<u>\$ 3,900,000</u>	<u>\$ 1,711,890</u>	<u>\$ 1,513,840</u>	<u>\$ 331,826</u>

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - NOTES PAYABLE:-

A summary of the note transactions of the year ended December 31, 2006, is as follows:

	Interest	Balance 12/31/05	Additions	Retirements	Balance 12/31/06
<u>Central Garage Notes</u>					
October 18, 2006	4.25%		\$ 1,500,000		\$ 1,500,000
October 19, 2005	4.25%	\$ 1,780,000	0	\$ (1,780,000)	0
		<u>1,780,000</u>	<u>1,500,000</u>	<u>(1,780,000)</u>	<u>1,500,000</u>
<u>Wellness Rd TIF Note</u>					
June 28, 2006	4.00%		775,000		775,000
June 29, 2005	3.15%	750,000	0	(750,000)	0
		<u>750,000</u>	<u>775,000</u>	<u>(750,000)</u>	<u>775,000</u>
<u>Sanitary Sewer Improvements</u>					
October 18, 2006	4.25%	0	2,635,000	0	2,635,000
October 19, 2005	4.25%	2,635,000	0	(2,635,000)	0
		<u>2,635,000</u>	<u>2,635,000</u>	<u>(2,635,000)</u>	<u>2,635,000</u>
<u>Storm Sewer Improvements</u>					
October 18, 2006	4.25%	0	2,090,000	0	2,090,000
October 19, 2005	4.25%	2,090,000	0	(2,090,000)	0
		<u>2,090,000</u>	<u>2,090,000</u>	<u>(2,090,000)</u>	<u>2,090,000</u>
Total		<u>\$ 7,255,000</u>	<u>\$ 7,000,000</u>	<u>\$ (7,255,000)</u>	<u>\$ 7,000,000</u>

All of the City's bond anticipation notes are backed by the full faith and credit of the City of Marion and have a maturity within one year.

NOTE 14 - INTERFUND ASSETS/LIABILITIES:-

Individual fund interfund asset and liability balances at December 31, 2006, were as follows:

Due to/from other funds

Due to	Due From				Total
	General	Nonmajor Governmental Fund	Sanitation	Nonmajor Enterprise Fund	
Nonmajor special revenue	\$0	\$ 7,037	\$0	\$0	\$ 7,037
Sewer	535	124	1,221	35	1,915
Total	<u>\$ 535</u>	<u>\$ 7,161</u>	<u>\$ 1,221</u>	<u>\$ 35</u>	<u>\$ 8,952</u>

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - INTERFUND ASSETS/LIABILITIES:- (continued)

Interfund receivable/payable

<u>Interfund receivable</u>	<u>Interfund Payable</u>
	Nonmajor Special
	<u>Revenue</u>
General	\$ 144,469
Total	<u>\$ 144,469</u>

NOTE 15 - RISK MANAGEMENT:-

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the City contracted with the Ohio Municipal League Joint Self-Insurance Pool, an insurance purchasing pool, for the following coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Property (Building and Contents)	\$42,998,918	\$ 1,000
Earthquake	500,000	5,000
Electronic Data and Equipment	494,577	500
Valuable Papers and Records	100,000	1,000
Extra Expense	50,000	1,000
Employee Benefits Liability (per occurrence)	1,000,000	5,000
Employee Benefits Liability (aggregate)	1,000,000	5,000
Public Official Liability	5,000,000	15,000
Police Professional Liability	5,000,000	10,000
General Liability (per occurrence)	5,000,000	5,000
General Liability (aggregate)	5,000,000	5,000
Contractors Equipment	480,700	500
Auto Fleet liability/Physical Damage	5,000,000	1,000
EMT Professional Liability	5,000,000	5,000
Miscellaneous Tools	25,000	500
Uninsured Motorists	40,000	0
Stop Gap	1,000,000	5,000

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

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

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - PENSION PLANS:

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$717,641, \$693,072, and \$635,803, respectively; 92% has been contributed for 2006 and 100% has been contributed for 2005 and 2004. \$57,411, representing the unpaid contributions for 2006, is recorded as a liability within the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2006.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 11.75% and 16.25% for police officers and firefighters, respectively. Contributions are authorized by State statute. The City's contributions for pension obligations to OP&F for the years ended December 31, 2006, 2005, and 2004 were \$925,805, \$908,549, and \$868,083, respectively; 88% has been contributed for 2006 and 100% for the years 2005 and 2004. \$111,097, representing the unpaid contributions for 2006, is recorded as a liability within the respective funds.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 17 - POSTRETIREMENT BENEFIT PLANS:-

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement Systems (OPERS) provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of the covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006, which were used to fund postemployment benefits were \$273,493. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 17 - POSTRETIREMENT BENEFIT PLANS: - (continued)

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$256,382 for police and \$255,913 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING:-

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

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING:- (continued)

4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

	Net Change in Fund Balance	
	General	Street
Budget basis	\$ 799,288	\$ (29,377)
Net adjustment for revenue accruals	72,318	(8,493)
Net adjustment for expenditure accruals	(44,321)	47,591
Net adjustment for other sources/uses	(36,044)	(12,828)
Adjustment for encumbrances	306,860	116,979
GAAP basis	\$ 1,098,101	\$ 113,872

NOTE 19- CONTINGENCIES:-

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2006.

B. Litigation

The City is currently involved in litigation that the City's legal counsel can not reasonably predict the outcome herein or on the overall financial position of the City at December 31, 2006.

CITY OF MARION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 20 - LANDFILL POSTCLOSURE CARE COSTS:-

State and Federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The landfill stopped accepting waste in 1992. An expense provision and related liability were recognized in 1993 based on the estimated postclosure care costs to be incurred after the date the landfill stopped accepting waste. The estimated liability for landfill postclosure care costs has a balance of \$2,538,756 as of December 31, 2006, which is based on 100% usage (filled) of the landfill. The estimated total current costs of the landfill postclosure care \$2,538,756 are based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of December 31, 2006. However, the actual cost of postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations.

The City demonstrates financial assurance for its postclosure obligations by meeting the "Local Government Financial Test".



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mayor and Members of Council
City of Marion, Ohio

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, Ohio (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 27, 2008. The City did not present Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 expressing our opinion on the financial statements, but not to opine 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting as items 2006-001 and 2006-002.

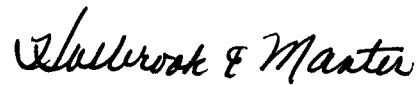
A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated February 27, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated February 27, 2008. This report is intended solely for the information and use of the City's management, the Ohio Auditor of State and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Certified Public Accountants

February 27, 2008



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor and Members of Council
City of Marion, Ohio

Compliance

We have audited the compliance of the City of Marion, Ohio (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006. However, we noted other matters involving compliance, which we have reported to management of the City in a separate letter dated February 27, 2008.

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be significant deficiencies or material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be significant deficiencies or material weaknesses. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated February 27, 2008.

Holbrook & Manter

Certified Public Accountants

February 27, 2008

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Federal Grantor</u>	Federal	Pass Through	
<i>Pass-Through Grantor</i>	CFDA	Entity	
Program Title	Number	Number	Disbursements
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>			
Passed through Ohio Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	51-2-001-1-CL-07	\$ 61,587
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	51-2-001-1-CL-06	<u>209,039</u>
Total U.S. Department of Agriculture			<u>270,626</u>
<u>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through Ohio Department of Development			
Community Development Block Grant - State's Program	14.228	A-C-04-142-1	120,961
Community Development Block Grant - State's Program	14.228	A-F-05-142-1	72,410
Community Development Block Grant - State's Program	14.228	A-F-04-142-1	48,945
Community Development Block Grant - State's Program	14.228	A-T-04-142-2	5,485
Community Development Block Grant - State's Program	14.228	A-X-03-142-1	<u>161,589</u>
Total Community Development Block Grant - State's Program			<u>409,390</u>
Home Investment Partnership Program	14.239	A-C-04-142-2	<u>119,019</u>
Total Home Investment Partnership Program			<u>119,019</u>
Total US Department of Housing and Urban Development			<u>528,409</u>
<u>UNITED STATES DEPARTMENT OF JUSTICE</u>			
Passed through Ohio Office of Criminal Justice Services			
MDT/Information Sharing Network Grant	16.579	2003-BJ-E01-6426	17,654
School Resource Officer Grant	16.579	2004-DG-B01-7340	92
School Resource Officer Grant	16.738	2005-JG-B01-6412	<u>44,983</u>
Total School Resource Grant			<u>45,075</u>
Violence Against Women Formula Grant	16.588	2005-WF-VA2-8110	<u>50,675</u>
Total Violence Against Women Formula Grant			<u>50,675</u>
Total - U.S. Department of Justice			<u>113,404</u>
<u>UNITED STATES DEPARTMENT OF TRANSPORTATION</u>			
Airport Improvement Program	20.106	AIP-3-39-0050	350,270
Passed Through Ohio Department of Transportation			
Federal Transit Formula Grants	20.509	RPT-4051-024-061	339,041
Formula Grants for Other Than Urbanized Areas	20.509	RPT-4051-024-063	<u>14,232</u>
Total Transit Grants			<u>353,273</u>
Federal Highway Administration	20.205	PID No. 78534	<u>361,753</u>
Total - U.S. Department of Transportation			<u>1,065,296</u>
<u>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Ohio Department of Aging			
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	N/A	49,796
Special Programs for the Aging - Title III, Part E Grants for Supportive Services and Senior Centers	93.044	N/A	<u>5,000</u>
Total - U.S. Department of Health and Human Services			<u>54,796</u>
<u>UNITED STATES DEPARTMENT OF HOMELAND SECURITY</u>			
FEMA/United States Fire Administration	97.084	HSFEEM-06-P-5563	<u>37,814</u>
Total - U.S. Department of Homeland Security			<u>37,814</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u>\$ 2,070,345</u>

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

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

CITY OF MARION
NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:-

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

NOTE 2 - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS:-

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-to-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule. These loans are collateralized by liens placed on personal property. At December 31, 2006, amounts were paid to date and no delinquent amounts due.

NOTE 3 - MATCHING REQUIREMENTS:-

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

NOTE 4 - PASS-THROUGH ENTITY NUMBERS:-

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

CITY OF MARION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED DECEMBER 31, 2006

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 other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #14.228 – Community Development Block Grant CFDA #20.205 – Highway Planning and Construction
<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?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

CITY OF MARION
SUMMARY SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

Finding Number	2006-001
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Significant Deficiency – Review of GAAP up Financials

Although the City receives a copy of their compiled financial statements once the GAAP financial reporting is performed, the City has not established formal procedures to review those statements to determine that the proper amounts are being reported. During our testing and analysis, we noted that the financial statements included inappropriate cash fund balance for the Agency fund. The Court's checking accounts were not properly accounted for within these fund balances because of the exclusion of outstanding checks and deposits in transit causing the cash to be misstated for the report. An adjustment was proposed for the outstanding checks and deposits in transit, and the City determined that the adjustment would be made within the report for the appropriate balances to be reflected.

The monthly cash reconciliations at the Court's checking accounts are not maintained within the City Auditor's Office, which resulted in miscommunication at year end with the cash fund balances. The reconciliation for these checking accounts should be at a minimum reported to the Auditor's Office at each months end for the appropriate checks and balances to take place between the Auditor and the Clerk of Courts. A binder of documentation provided by the Clerk of Courts system regarding the checking accounts should be maintained within the City Auditor's Office for reference purpose for use during the closings and reconciliations that take place at month end.

The City should carefully review this information and make appropriate inquires to help determine the integrity of the financial information.

Officials' Response

The City will appropriately review the support prepared by the outside consultant to determine amounts appear reasonably stated through financial reporting.

Finding Number	2006-002
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Significant Deficiency – Deferred Revenue Recognition

Although the City attempts to track deferred revenue at year end, the City has not established formal procedures to reasonably assure completeness and accuracy of the reporting. During our testing and analysis, we noted that the City failed to include a grant with their year end calculation of deferred revenue. Not appropriately tracking deferred revenue can result in a potential material misstatement to the year end financial reporting.

The City should carefully review the information at year end and make appropriate inquires to the outside consultant assisting with the GAAP financial reporting process to help make a determination of the integrity of the financial information needing to be reported at year end.

Officials' Response

The City will appropriately maintain the supporting documentation they prepare and review the support prepared by the outside consultant to determine amounts appear reasonably stated through financial reporting.



Mary Taylor, CPA
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
MAY 15, 2008**