



Dave Yost • Auditor of State

**CITY OF MARION
MARION COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marion, Marion County, Ohio (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marion, Marion County, Ohio, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Street Construction, Maintenance and Repair funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 27 to the financial statements, because of the continued regional recessionary economy and the City's reliance on income taxes as a significant funding source, the City's General Fund balance has diminished significantly. Note 27 describes management's plans regarding this matter. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

October 20, 2011

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

The discussion and analysis of the City of Marion's financial performance provides an overview of the City's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2010 are as follows:

In total, the City's net assets decreased 6 percent from the prior year; 6 percent for governmental activities and almost 9 percent for business-type activities. Although the change in total revenues and expenses was minimal for governmental activities, continued cash carryover spending resulted in this decrease. The decrease in business-type activities is related to capital assets constructed within the enterprise funds and contributed to governmental activities.

General revenues made up 72 percent of the total revenues for governmental activities in 2010, and of this amount, 73 percent was provided through municipal income taxes, the most critical of the City's revenue sources. Program revenues, primarily user charges, made up 97 percent of the revenues for business-type activities.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2010. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

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

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2010 and 2009.

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>Assets</u>						
Current and Other Assets	\$15,391,687	\$15,976,428	\$13,336,119	\$14,845,816	\$28,727,806	\$30,822,244
Capital Assets, Net	55,755,565	56,354,908	43,231,527	36,896,225	98,987,092	93,251,133
Total Assets	<u>71,147,252</u>	<u>72,331,336</u>	<u>56,567,646</u>	<u>51,742,041</u>	<u>127,714,898</u>	<u>124,073,377</u>
<u>Liabilities</u>						
Current and Other Liabilities	4,597,167	4,427,306	10,166,613	11,907,089	14,763,780	16,334,395
Long-Term Liabilities	13,459,751	11,659,632	36,798,096	29,294,063	50,257,847	40,953,695
Total Liabilities	<u>18,056,918</u>	<u>16,086,938</u>	<u>46,964,709</u>	<u>41,201,152</u>	<u>65,021,627</u>	<u>57,288,090</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	50,562,689	51,096,131	11,110,014	9,668,849	61,672,703	60,764,980
Restricted	5,412,004	4,491,470	0	0	5,412,004	4,491,470
Unrestricted (Deficit)	(2,884,359)	656,797	(1,507,077)	872,040	(4,391,436)	1,528,837
Total Net Assets	<u>\$53,090,334</u>	<u>\$56,244,398</u>	<u>\$9,602,937</u>	<u>\$10,540,889</u>	<u>\$62,693,271</u>	<u>\$66,785,287</u>

The above table reflects a few notable changes for governmental activities from the prior year. The increase in long-term liabilities is primarily due to general obligation bonds issued for a number of projects, the largest consisting of street improvements and constructing and equipping a central garage. The increase in restricted net assets is the result of American Recovery and Reinvestment grant resources received by the City in 2010 related to police operations, transit operations, and energy efficiency improvements. A substantial portion of the decrease in unrestricted net assets is the result of cash carryover spending.

There were several significant changes for business-type activities as well. The decrease in current and other assets was primarily due to a decrease in cash and cash equivalents, a combination of cash carryover spending for operations and spending resources on various sewer and storm water projects. This decrease is reflected in the decrease in unrestricted net assets (cash carryover spending); however, resources spent for projects are also reflected in the increase in net capital assets and invested in capital assets. The increase in current and other liabilities is due to sewer and storm water projects for which contractors did not receive payment until 2011. The increase in long-term liabilities reflects additional bond proceeds as well as OWDA and OPWC proceeds for sewer and storm water projects.

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

Table 2 reflects the change in net assets for 2010 and 2009.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$2,185,283	\$3,566,669	\$8,618,552	\$8,768,298	\$10,803,835	\$12,334,967
Operating Grants, Contributions, and Interest	4,403,920	3,177,575	0	0	4,403,920	3,177,575
Capital Grants, Contributions, and Interest	263,176	429,800	1,373,492	200,531	1,636,668	630,331
Total Program Revenues	6,852,379	7,174,044	9,992,044	8,968,829	16,844,423	16,142,873
General Revenues						
Property Taxes Levied for General Purposes	1,138,506	1,153,111	0	0	1,138,506	1,153,111
Property Taxes Levied for Police and Fire Pension	207,376	209,572	0	0	207,376	209,572
Payment in Lieu of Taxes	361,716	345,570	0	0	361,716	345,570
Municipal Income Taxes Levied for General Purposes	11,831,522	11,865,486	0	0	11,831,522	11,865,486
Municipal Income Taxes Levied for Street Construction, Maintenance, and Repair	377,602	526,254	0	0	377,602	526,254
Municipal Income Taxes Levied for Capital Improvements	377,602	277,777	0	0	377,602	277,777
Grants and Entitlements not Restricted to Specific Programs	1,936,793	2,313,482	0	0	1,936,793	2,313,482
Franchise Taxes	288,289	272,225	0	0	288,289	272,225
Interest	333,457	184,976	0	49,182	333,457	234,158
Other	137,018	388,661	296,571	30,643	433,589	419,304
Total General Revenues	16,989,881	17,537,114	296,571	79,825	17,286,452	17,616,939
Total Revenues	23,842,260	24,711,158	10,288,615	9,048,654	34,130,875	33,759,812
<u>Program Expenses</u>						
Security of Persons and Property						
Police	7,637,515	7,537,407	0	0	7,637,515	7,537,407
Fire	6,205,475	6,202,510	0	0	6,205,475	6,202,510
Other	274,704	272,940	0	0	274,704	272,940
Public Health	636,408	1,119,073	0	0	636,408	1,119,073
Leisure Time Activities	1,420,937	1,438,764	0	0	1,420,937	1,438,764
Community Environment	1,363,569	953,077	0	0	1,363,569	953,077
Transportation						
Transit	820,298	1,038,671	0	0	820,298	1,038,671
Other	5,090,213	5,149,912	0	0	5,090,213	5,149,912

(continued)

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<u>Program Expenses</u> (continued)						
General Government						
Court	\$1,001,001	\$996,558	\$0	\$0	\$1,001,001	\$996,558
Other	3,874,215	3,125,248	0	0	3,874,215	3,125,248
Interest and Fiscal Charges	315,718	231,842	0	0	315,718	231,842
Sewer	0	0	5,795,346	6,408,838	5,795,346	6,408,838
Sanitation	0	0	2,039,259	2,413,915	2,039,259	2,413,915
Landfill	0	0	108,154	23,488	108,154	23,488
Storm Water	0	0	1,640,079	2,023,313	1,640,079	2,023,313
Total Expenses	<u>28,640,053</u>	<u>28,066,002</u>	<u>9,582,838</u>	<u>10,869,554</u>	<u>38,222,891</u>	<u>38,935,556</u>
Increase (Decrease) in Net Assets Before Transfers	(4,797,793)	(3,354,844)	705,777	(1,820,900)	(4,092,016)	(5,175,744)
Transfers	1,643,729	395,394	(1,643,729)	(395,394)	0	0
Decrease in Net Assets	(3,154,064)	(2,959,450)	(937,952)	(2,216,294)	(4,092,016)	(5,175,744)
Net Assets Beginning of Year	56,244,398	59,203,848	10,540,889	12,757,183	66,785,287	71,961,031
Net Assets End of Year	<u>\$53,090,334</u>	<u>\$56,244,398</u>	<u>\$9,602,937</u>	<u>\$10,540,889</u>	<u>\$62,693,271</u>	<u>\$66,785,287</u>

The above table reflects the revenues and expenses for operating the City during 2010. For governmental activities, program revenues reflect the most significant changes from the prior year. Charges for services decreased substantially. The City chose to write-off \$1.5 million in receivables/revenue related to outstanding EMS services. The City does not have a collection department to pursue delinquent service charges and will be contracting with an outside agency for future collections. Operating grants and contributions increased from American Recovery and Reinvestment (ARRA) resources received for police operations, transit operations, and energy efficiency improvements as well as from an increase in gasoline tax distributions from the State (fluctuates with the price of gasoline). Overall, program revenues decreased 4.5 percent. General revenues remained similar to the prior year with a change of slightly over 3 percent.

Expenses for governmental activities increased by a modest 2 percent. For 2010, the City no longer operated its own health department (combined with County) resulting in the decrease in expenses for the public health program. The increase in costs for the community environment program is due to the receipt of a grant for neighborhood stabilization activities and the increase in the other general government program reflects the costs associated with the grant received for energy efficiency improvements. The police and fire departments continue to be the largest governmental activities expense making up 48 percent of the City's total expenses.

Unfortunately, the costs of providing services exceeded 2010 revenue and led to cash carryover spending and the resulting decrease in net assets for governmental activities.

As is to be expected, 97 percent for the revenues for business type activities are received through charges for services provided to the users of the service. Note the increase in capital grants and contributions which reflects ARRA grant resources related to sewer and storm water projects.

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

In total, expenses decreased by 12 percent for business-type activities as expenses decreased for the Sewer, Landfill, and Storm Water funds. For the Sewer Fund, the largest decreases are reflected within contractual services (professional services including engineering related to projects and new software training) and materials and supplies (some materials and supplies expenses associated with capital acquisition). For the Landfill Fund, the largest decrease was related to bad debts recorded in the prior year. The reduction for the Storm Water Fund was similar to those of the Sewer Fund, contractual services (professional services including engineering related to projects and new software training).

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Security of Persons and Property				
Police	\$7,637,515	\$7,537,407	\$7,040,044	\$7,226,518
Fire	6,205,475	6,202,510	6,189,713	4,977,730
Other	274,704	272,940	274,704	272,940
Public Health	636,408	1,119,073	563,952	452,687
Leisure Time Activities	1,420,937	1,438,764	887,523	1,216,277
Community Environment	1,363,569	953,077	116,826	453,548
Transportation				
Transit	820,298	1,038,671	62,826	451,361
Other	5,090,213	5,149,912	3,249,681	3,310,867
General Government				
Court	1,001,001	996,558	(128,002)	(134,472)
Other	3,874,215	3,125,248	3,214,689	2,432,660
Interest and Fiscal Charges	315,718	231,842	315,718	231,842
Total Expenses	<u>\$28,640,053</u>	<u>\$28,066,002</u>	<u>\$21,787,674</u>	<u>\$20,891,958</u>

While the dependence on general revenues (primarily municipal income taxes) to pay for the various services provided by the City is significant, program revenues in several of the programs provide for a considerable portion of the costs. For example, charges for services (such as rental fees, membership and admission charges) and operating grants provide for over 37 percent of the costs of the leisure time activities program, restricted for public health purposes provided for almost 11 percent of the costs of this program. Various operating grants, generally the CDBG and CHIP programs, provided for 91 percent of the costs of the community environment program. Charges for services and various grants and contributions provided for 44 percent of transportation costs. The transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes. In addition, the City receives grants to assist in operating the public transit system. Lastly, court related fines and charges provided program revenues in excess of costs again in 2010.

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund, the Street Construction, Maintenance, and Repair special revenue fund, and the Bond Retirement debt service fund. The General Fund experienced a \$2.8 million decrease in fund balance resulting in a deficit balance at year end of \$1.4 million. Revenues decreased \$1.4 million with lower receipts from almost every revenue source. In addition, the City received over \$600,000 in estate taxes in the prior year. Expenditures decreased slightly (2 percent); however, could not match the 7 percent decrease in revenues which resulted in exhausting the entire cash carryover balance and deficit spending.

Fund balance increased over \$75,000 (10 percent) in the Street Construction, Maintenance, and Repair Fund. Revenues for 2010 were very similar to the prior year, although expenditures increased over \$1.1 million. However, the fund received operating subsidies in excess of \$1.8 million from other funds.

The Bond Retirement Fund had a deficit fund balance as of year end. During the year, general obligation bonds were issued to retire outstanding bond anticipation notes and to refund previously issued general obligation bonds, as well as new resources for projects. As part of the refunding, certain resources were set aside with an escrow agent for the retirement of the refunded bonds as they mature or are called for payment. The combination of the resources set aside and current year principal retirements were in excess of the new bonds issued, therefore, resulting in a deficit.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds provide for wastewater treatment, trash collection, landfill postclosure activities, and the storm water runoff system. The Sewer Fund had an operating income and a 5 percent increase in net assets. A rate increase led to an increase in charges for services and expenses decreased somewhat, primarily contracted services. In addition, the fund received capital contributions of over \$600,000 for sewer construction activities and transferred resources related to street improvements in excess \$579,000.

The Sanitation Fund had a 15 percent decrease in net assets; charges for services were not sufficient to cover operating costs.

The Landfill Fund had a 4 percent decrease in net assets. The Landfill stopped accepting waste in 1995; all costs at this point are related to postclosure activities.

The Storm Water Fund had an operating income; however, had a decrease in net assets due to the transfer of resources related to street improvements in excess of \$1 million.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. For revenues, changes from the original budget to the final budget were not significant; however, actual revenues were 6 percent lower than anticipated. This was primarily reflected in lower income taxes than anticipated and impacted by the recent downturn. For expenditures, changes from the original budget to the final budget as well as from the final budget to actual expenditures were not significant.

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2010, was \$55,755,565 and \$43,231,527, respectively (net of accumulated depreciation). The most significant additions for governmental activities included both ongoing and completed street improvements and a new computer system upgrade. The most significant additions for business-type activities were both ongoing and completed sewer and storm water improvements. For further information regarding the City's capital assets, refer to Note 11 to the basic financial statements.

Debt - At December 31, 2010, the City had \$2,650,000 in bond anticipation notes payable from governmental activities and \$5,900,000 in bond anticipation notes payable from business-type activities. The City also had a number of long-term obligations outstanding including \$19,420,000 in general obligation bonds, \$683,602 in loans for an ODOT related project, \$1,459,350 in Ohio Public Works Commission loans, \$304,164 in capital loans, and \$18,561,506 in Ohio Water Development Authority loans. Of this debt, \$34,094,584 will be paid from business-type activities.

In addition, the City's long-term obligations also include capital leases, compensated absences, and the liability associated with the future payment of landfill postclosure costs. For further information regarding the City's debt, refer to Notes 18, 19, 20, and 21 to the basic financial statements.

CURRENT ISSUES

The 2011 year has been challenging for the City of Marion. Income tax revenues are flat and any new development or job creation has been slow. With State cuts looming, the second half of the year is yet to be determined. The Mayor continues to work on retention and expansion with existing companies.

Some of the State cuts have included the privatization of the correctional facility which employs a large number of workers in the median income levels. We do anticipate this change will result in a negative impact on the City's General Fund.

Contract negotiations have taken place and concessions have been made by City employees. Some of these concessions expire at the end of 2011 so talks will resume for the 2012 budget.

The City will be building an Aquatic Center which is anticipated to open in May 2012. This project will cost approximately \$3.5 million. The City will be using the lease revenue from the Marion General Hospital to pay for the debt and operations for the foreseeable future.

There will be no new borrowing for sewer or storm water projects in 2011. The City is finishing the current projects on Columbia, Blaine, Oak, Milburn, Meadow, and Robinson streets. The City issued \$5.9 million in bond anticipation notes in 2010 for these projects. The notes will be rolled for 2011.

REQUEST FOR INFORMATION

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

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 5,829,514	\$ 7,451,661	\$ 13,281,175
Accounts Receivable	698,528	5,287,635	5,986,163
Accrued Interest Receivable	20,816	-	20,816
Due from Other Governments	2,408,003	340,661	2,748,664
Municipal Income Taxes Receivable	3,392,896	-	3,392,896
Internal Balances	(116,127)	116,127	-
Prepaid Items	109,040	51,778	160,818
Materials and Supplies Inventory	140,914	88,257	229,171
Property Taxes Receivable	1,505,420	-	1,505,420
Payment in Lieu of Taxes Receivable	361,098	-	361,098
Notes Receivable	1,041,585	-	1,041,585
Nondepreciable Capital Assets	10,604,272	2,966,840	13,571,112
Depreciable Capital Assets, Net	45,151,293	40,264,687	85,415,980
Total Assets	<u>71,147,252</u>	<u>56,567,646</u>	<u>127,714,898</u>
<u>Liabilities</u>			
Accrued Wages Payable	435,184	81,105	516,289
Accounts Payable	410,706	126,766	537,472
Contracts Payable	955,455	3,619,484	4,574,939
Due to Other Governments	1,122,332	118,765	1,241,097
Retainage Payable	14,853	255,831	270,684
Accrued Interest Payable	45,257	64,662	109,919
Notes Payable	-	5,900,000	5,900,000
Deferred Revenue	1,613,380	-	1,613,380
Long-Term Liabilities			
Due Within One Year	3,647,471	2,747,255	6,394,726
Due in More Than One Year	9,812,280	34,050,841	43,863,121
Total Liabilities	<u>18,056,918</u>	<u>46,964,709</u>	<u>65,021,627</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt Restricted for	50,562,689	11,110,014	61,672,703
Capital Projects	1,453,610	-	1,453,610
Street Construction, Maintenance, and Repair	1,138,333	-	1,138,333
Other Purposes	2,820,061	-	2,820,061
Unrestricted (Deficit)	(2,884,359)	(1,507,077)	(4,391,436)
Total Net Assets	<u>\$ 53,090,334</u>	<u>\$ 9,602,937</u>	<u>\$ 62,693,271</u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants Contributions, and Interest	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
<u>Security of Persons and Property</u>							
Police	\$ 7,637,515	\$ 45,231	\$ 552,240	\$ -	\$ (7,040,044)	\$ -	\$ (7,040,044)
Fire	6,205,475	-	15,762	-	(6,189,713)	-	(6,189,713)
Other	274,704	-	-	-	(274,704)	-	(274,704)
Public Health	636,408	66,786	5,670	-	(563,952)	-	(563,952)
Leisure Time Activities	1,420,937	397,010	136,404	-	(887,523)	-	(887,523)
Community Environment	1,363,569	-	1,228,602	18,141	(116,826)	-	(116,826)
<u>Transportation</u>							
Transit	820,298	21,751	735,721	-	(62,826)	-	(62,826)
Other	5,090,213	108,231	1,487,266	245,035	(3,249,681)	-	(3,249,681)
<u>General Government</u>							
Court	1,001,001	1,115,245	13,758	-	128,002	-	128,002
Other	3,874,215	431,029	228,497	-	(3,214,689)	-	(3,214,689)
Interest and Fiscal Charges	315,718	-	-	-	(315,718)	-	(315,718)
Total Governmental Activities	28,640,053	2,185,283	4,403,920	263,176	(21,787,674)	-	(21,787,674)
Business-Type Activities							
Sewer	5,795,346	5,757,769	-	600,719	-	563,142	563,142
Sanitation	2,039,259	1,636,510	-	-	-	(402,749)	(402,749)
Landfill	108,154	-	-	-	-	(108,154)	(108,154)
Storm Water	1,640,079	1,224,273	-	772,773	-	356,967	356,967
Total Business-Type Activities	9,582,838	8,618,552	-	1,373,492	-	409,206	409,206
Total	\$ 38,222,891	\$ 10,803,835	\$ 4,403,920	\$ 1,636,668	(21,787,674)	409,206	(21,378,468)
General Revenues							
Property Taxes Levied for General Purposes					1,138,506	-	1,138,506
Property Taxes Levied for Police and Fire Pension					207,376	-	207,376
Payment in Lieu of Taxes					361,716	-	361,716
Municipal Income Taxes Levied for General Purposes					11,831,522	-	11,831,522
Municipal Income Taxes Levied for Street Construction, Maintenance, and Repair					377,602	-	377,602
Municipal Income Taxes Levied for Capital Improvements					377,602	-	377,602
Grants and Entitlements not Restricted to Specific Programs					1,936,793	-	1,936,793
Franchise Taxes					288,289	-	288,289
Interest					333,457	-	333,457
Other					137,018	296,571	433,589
Total General Revenues					16,989,881	296,571	17,286,452
Transfers					1,643,729	(1,643,729)	-
Total General Revenues and Transfers					18,633,610	(1,347,158)	17,286,452
Change in Net Assets					(3,154,064)	(937,952)	(4,092,016)
Net Assets Beginning of Year - Restated (Note3)					56,244,398	10,540,889	66,785,287
Net Assets End of Year					\$ 53,090,334	\$ 9,602,937	\$ 62,693,271

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Street Construction, Maintenance, and Repair	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Assets</u>					
Equity in Pooled Cash and Cash Equivalents	\$ 28,202	\$ -	\$ -	\$ 5,620,476	\$ 5,648,678
Accounts Receivable	698,528	-	-	-	698,528
Accrued Interest Receivable	20,816	-	-	-	20,816
Due from Other Governments	851,096	638,967	-	917,940	2,408,003
Municipal Income Taxes Receivable	3,189,322	101,787	-	101,787	3,392,896
Interfund Receivable	604,375	1,219,455	-	770,794	2,594,624
Prepaid Items	86,717	8,801	-	10,163	105,681
Materials and Supplies Inventory	16,741	-	-	2,780	19,521
Property Taxes Receivable	1,268,805	-	-	236,615	1,505,420
Payment in Lieu of Taxes Receivable	-	-	-	361,098	361,098
Notes Receivable	-	-	-	1,041,585	1,041,585
Total Assets	\$ 6,764,602	\$ 1,969,010	\$ -	\$ 9,063,238	\$ 17,796,850
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accrued Wages Payable	\$ 351,463	\$ 29,663	\$ -	\$ 46,613	\$ 427,739
Accounts Payable	283,345	13,501	-	78,701	375,547
Contracts Payable	5,625	466,400	-	483,430	955,455
Due to Other Governments	905,972	41,909	-	164,374	1,112,255
Interfund Payable	1,629,500	33,799	385,823	613,751	2,662,873
Retainage Payable	-	-	-	14,853	14,853
Deferred Revenue	5,010,252	607,644	-	1,471,157	7,089,053
Total Liabilities	8,186,157	1,192,916	385,823	2,872,879	12,637,775
<u>Fund Balance</u>					
Reserved for Encumbrances	108,439	149,919	-	820,304	1,078,662
Reserved for Interfund Receivable	314,000	-	-	-	314,000
Reserved for Notes Receivable	-	-	-	1,007,670	1,007,670
Unreserved, Designated for Termination Benefits	-	-	-	504,426	504,426
Unreserved, Reported in General Fund (Deficit)	(1,843,994)	-	-	-	(1,843,994)
Special Revenue Funds	-	626,175	-	603,560	1,229,735
Debt Service Fund (Deficit)	-	-	(385,823)	-	(385,823)
Capital Projects Funds	-	-	-	3,254,399	3,254,399
Total Fund Balance (Deficit)	(1,421,555)	776,094	(385,823)	6,190,359	5,159,075
Total Liabilities and Fund Balance	\$ 6,764,602	\$ 1,969,010	\$ -	\$ 9,063,238	\$ 17,796,850

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Total Governmental Fund Balance \$ 5,159,075

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

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

Governmental Activities	55,755,565	
Internal Service Fund	(1,715,519)	
		54,040,046

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

Accounts Receivable	627,954	
Accrued Interest Receivable	11,702	
Due from Other Governments	2,014,240	
Municipal Income Taxes Receivable	2,568,639	
Property Taxes Receivable	253,138	
		5,475,673

An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities. (135,957)

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

Accrued Interest Payable	(41,731)	
Notes Payable	(2,650,000)	
General Obligation Bonds Payable	(3,993,100)	
ODOT DRIP TIF Payable	(683,602)	
OPWC Loans Payable	(76,922)	
Capital Loans Payable	(304,164)	
Compensated Absences Payable	(4,475,713)	
Compensated Absences Payable - Internal Service Fund	61,166	
		(12,164,066)

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

715,563

Net Assets of Governmental Activities \$ 53,090,334

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Street Construction, Maintenance, and Repair	Bond Retirement	Other Governmental	Total Governmental Funds
Revenues					
Property Taxes	\$ 1,104,840	\$ -	\$ -	\$ 201,192	\$ 1,306,032
Payment in Lieu of Taxes	-	-	-	361,716	361,716
Municipal Income Taxes	11,038,477	352,292	-	352,292	11,743,061
Charges for Services	1,611,587	2,939	-	61,520	1,676,046
Fees, Licenses, and Permits	311,253	15,400	-	-	326,653
Fines and Forfeitures	908,423	-	-	340,876	1,249,299
Intergovernmental	1,997,580	1,418,535	-	2,883,082	6,299,197
Interest	355,445	196	-	19,054	374,695
Other	298,923	70,467	11,048	93,603	474,041
Total Revenues	17,626,528	1,859,829	11,048	4,313,335	23,810,740
Expenditures					
Current:					
Security of Persons and Property					
Police	6,863,861	-	-	688,549	7,552,410
Fire	5,865,437	-	-	259,920	6,125,357
Other	274,704	-	-	-	274,704
Public Health	636,090	-	-	-	636,090
Leisure Time Activities	734,927	-	-	668,148	1,403,075
Community Environment	357,299	-	-	1,006,270	1,363,569
Transportation					
Transit	-	-	-	807,806	807,806
Other	323,066	3,644,492	-	715,265	4,682,823
General Government					
Court	817,372	-	-	180,035	997,407
Other	2,967,109	-	-	1,099,216	4,066,325
Debt Service:					
Principal Retirement	-	-	3,715,250	190,545	3,905,795
Interest and Fiscal Charges	-	-	160,755	135,509	296,264
Total Expenditures	18,839,865	3,644,492	3,876,005	5,751,263	32,111,625
Excess of Revenues Under Expenditures	(1,213,337)	(1,784,663)	(3,864,957)	(1,437,928)	(8,300,885)
Other Financing Sources (Uses)					
Bond Anticipation Notes Issued	-	-	-	2,650,000	2,650,000
General Obligation Bonds Issued	-	-	4,178,350	-	4,178,350
Current Refunding	-	-	-	(250,000)	(250,000)
Payment to Refunded Bond Escrow Agent	-	-	(790,010)	-	(790,010)
Sale of Capital Assets	2,300	-	-	-	2,300
Transfers In	-	1,860,526	87,266	1,637,211	3,585,003
Transfers Out	(1,609,274)	-	-	(332,000)	(1,941,274)
Total Other Financing Sources (Uses)	(1,606,974)	1,860,526	3,475,606	3,705,211	7,434,369
Changes in Fund Balance	(2,820,311)	75,863	(389,351)	2,267,283	(866,516)
Fund Balance Beginning of Year	1,398,756	700,231	3,528	3,923,076	6,025,591
Fund Balance (Deficit) End of Year	\$ (1,421,555)	\$ 776,094	\$ (385,823)	\$ 6,190,359	\$ 5,159,075

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Changes in Fund Balance - Total Governmental Funds \$ (866,516)

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

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

Capital Outlay - Non-Depreciable Capital Assets	741,570	
Capital Outlay - Depreciable Capital Assets	1,698,219	
Depreciation	(2,826,519)	
Depreciation - Internal Service Fund	<u>47,464</u>	(339,266)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a loss on disposal of capital assets on the statement of activities

Proceeds from Sale of Capital Assets	(2,300)	
Loss on Disposal of Capital Assets	<u>(210,313)</u>	(212,613)

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

Property Taxes	39,850	
Municipal Income Taxes	843,665	
Charges for Services	(1,062,113)	
Fees, Licenses, and Permits	3,016	
Fines and Forfeitures	(5,089)	
Intergovernmental	234,340	
Interest	<u>(22,149)</u>	31,520

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

Notes Payable	3,780,000	
General Obligations Bond Payable	185,250	
ODOT DRIP TIF Payable	73,710	
OPWC Loans Payable	3,205	
Capital Loans Payable	74,049	
Capital Leases Payable	39,581	
Payment to Refunded Bond Escrow Agent	<u>790,010</u>	4,945,805

Debt proceeds are other financing sources in governmental funds but the issuance increases long-term liabilities on the statement of net assets.

Bond Anticipation Notes	(2,650,000)	
General Obligation Bonds	<u>(4,178,350)</u>	(6,828,350)

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

Accrued Interest Payable	\$5,556	
Cost of Refunding Expense	<u>(25,010)</u>	(19,454)

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

Compensated Absences Payable	3,686	
Compensated Absences Payable - Internal Service Fund	<u>4,549</u>	8,235

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

126,575

Change in Net Assets of Governmental Activities \$ (3,154,064)

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$ 1,301,092	\$ 1,301,092	\$ 1,104,840	\$ (196,252)
Municipal Income Taxes	12,705,121	12,705,121	11,061,253	(1,643,868)
Charges for Services	1,100,100	1,122,600	1,623,511	500,911
Fees, Licenses, and Permits	206,811	206,811	311,121	104,310
Fines and Forfeitures	888,800	888,800	906,609	17,809
Intergovernmental	2,089,205	2,089,205	2,061,932	(27,273)
Interest	450,000	450,000	364,011	(85,989)
Other	42,450	172,450	269,852	97,402
Total Revenues	18,783,579	18,936,079	17,703,129	(1,232,950)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	7,098,856	6,521,233	6,674,769	(153,536)
Fire	6,191,628	6,266,502	6,042,373	224,129
Other	355,339	396,321	292,556	103,765
Public Health	106,349	721,990	714,211	7,779
Leisure Time Activities	834,097	896,947	743,650	153,297
Community Environment	385,505	385,505	356,399	29,106
Transportation				
Other	392,530	486,299	315,435	170,864
General Government				
Court	818,029	819,249	817,236	2,013
Other	3,135,789	3,272,194	2,951,740	320,454
Total Expenditures	19,318,122	19,766,240	18,908,369	857,871
Excess of Revenues Under Expenditures	(534,543)	(830,161)	(1,205,240)	(375,079)
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	184,300	31,800	32,090	290
Sale of Capital Asstets	2,300	2,300	2,300	-
Advances In	500,000	500,000	121,777	(378,223)
Advances Out	-	-	-	-
Transfers In	465,000	465,000	-	(465,000)
Transfers Out	(1,527,615)	(1,053,123)	(749,024)	304,099
Total Other Financing Sources (Uses)	(376,015)	(54,023)	(592,857)	(538,834)
Changes in Fund Balance	(910,558)	(884,184)	(1,798,097)	(913,913)
Fund Balance (Deficit) Beginning of Year	1,498,463	1,498,463	1,498,463	-
Prior Year Encumbrances Appropriated	232,893	232,893	232,893	-
Fund Balance (Deficit) End of Year	\$ 820,798	\$ 847,172	\$ (66,741)	\$ (913,913)

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
STREET CONSTRUCTION, MAINTENANCE, AND REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Over (Under)
<u>Revenues</u>				
Municipal Income Taxes	\$ 1,184,773	\$ 999,077	\$ 594,324	\$ (404,753)
Charges for Services	38,165	4,260	2,939	(1,321)
Fees, Licenses, and Permits	18,360	13,926	15,400	1,474
Intergovernmental	1,609,645	1,107,667	1,417,126	309,459
Interest	12,378	9,951	196	(9,755)
Other	2,579	2,500	70,767	68,267
	<u>2,865,900</u>	<u>2,137,381</u>	<u>2,100,752</u>	<u>(36,629)</u>
<u>Expenditures</u>				
Current:				
Transportation	3,126,779	3,127,910	2,558,279	569,631
Changes in Fund Balance	(260,879)	(990,529)	(457,527)	533,002
Fund Balance Beginning of Year	129,801	129,801	129,801	-
Prior Year Encumbrances Appropriated	142,481	142,481	142,481	-
Fund Balance (Deficit) End of Year	<u>\$ 11,403</u>	<u>\$ (718,247)</u>	<u>\$ (185,245)</u>	<u>\$ 533,002</u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010**

	Business-Type Activities				Governmental Activity	
	Sewer	Sanitation	Landfill	Storm Water	Total Enterprise	Internal Service
Assets						
<u>Current Assets</u>						
Equity in Pooled Cash and Cash Equivalents	\$ 4,015,563	\$ -	\$ -	\$ 3,356,144	\$ 7,371,707	\$ 180,836
Accounts Receivable	2,428,724	2,120,929	-	737,982	5,287,635	-
Due from Other Governments	149,033	-	-	191,628	340,661	-
Interfund Receivable	113,577	-	-	-	113,577	88,079
Prepaid Items	38,957	9,523	-	3,298	51,778	3,359
Materials and Supplies Inventory	88,257	-	-	-	88,257	121,393
Total Current Assets	6,834,111	2,130,452	-	4,289,052	13,253,615	393,667
<u>Non-Current Assets</u>						
Restricted Assets						
Equity in Pooled Cash and Cash Equivalents	-	-	79,954	-	79,954	-
Nondepreciable Capital Assets	1,484,588	-	162,571	1,319,681	2,966,840	61,943
Depreciable Capital Assets, Net	24,802,068	503,751	-	14,958,868	40,264,687	1,653,576
Total Non-Current Assets	26,286,656	503,751	242,525	16,278,549	43,311,481	1,715,519
Total Assets	33,120,767	2,634,203	242,525	20,567,601	56,565,096	2,109,186
<u>Liabilities</u>						
<u>Current Liabilities</u>						
Accrued Wages Payable	44,543	26,890	-	9,672	81,105	7,445
Accounts Payable	67,040	29,375	4,375	25,976	126,766	35,159
Contracts Payable	2,289,306	-	10,726	1,319,452	3,619,484	-
Compensated Absences Payable	90,354	29,231	-	1,462	121,047	31,103
Due to Other Governments	68,546	35,878	248	14,093	118,765	10,077
Retainage Payable	165,638	-	-	90,193	255,831	-
Interfund Payable	10,336	121,911	-	1,160	133,407	-
Accrued Interest Payable	31,833	-	-	32,829	64,662	3,526
Notes Payable	3,130,400	-	150,000	2,619,600	5,900,000	-
General Obligation Bonds Payable	306,572	-	-	481,328	787,900	47,500
OWDA Loans Payable	1,428,005	-	167,172	-	1,595,177	-
OPWC Loans Payable	106,803	-	-	13,086	119,889	-
Capital Leases Payable	-	-	-	-	-	-
Postclosure Costs Payable	-	-	123,242	-	123,242	-
Total Current Liabilities	7,739,376	243,285	455,763	4,608,851	13,047,275	134,810
<u>Non-Current Liabilities</u>						
Compensated Absences Payable	296,589	66,800	-	4,614	368,003	30,063
General Obligation Bonds Payable	5,427,985	-	-	7,934,765	13,362,750	1,228,750
OWDA Loans Payable	16,220,837	-	745,492	-	16,966,329	-
OPWC Loans Payable	999,525	-	-	263,014	1,262,539	-
Postclosure Costs Payable	-	-	2,091,220	-	2,091,220	-
Total Non-Current Liabilities	22,944,936	66,800	2,836,712	8,202,393	34,050,841	1,258,813
Total Liabilities	30,684,312	310,085	3,292,475	12,811,244	47,098,116	1,393,623
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	3,539,336	503,751	162,571	6,904,356	11,110,014	439,269
Unrestricted (Deficit)	(1,102,881)	1,820,367	(3,212,521)	852,001	(1,643,034)	276,294
Total Net Assets (Deficit)	\$ 2,436,455	\$ 2,324,118	\$ (3,049,950)	\$ 7,756,357	9,466,980	\$ 715,563

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

135,957

Net Assets of Business-Type Activities

\$ 9,602,937

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Business-Type Activities				Governmental Activities	
	Sewer	Sanitation	Landfill	Storm Water	Total Enterprise	Internal Service
<u>Operating Revenues</u>						
Charges for Services	\$ 5,757,769	\$ 1,636,510	\$ -	\$ 1,224,273	\$ 8,618,552	\$ 1,030,868
Other	122,319	19,832	-	154,420	296,571	36,451
Total Operating Revenues	<u>5,880,088</u>	<u>1,656,342</u>	<u>-</u>	<u>1,378,693</u>	<u>8,915,123</u>	<u>1,067,319</u>
<u>Operating Expenses</u>						
Personal Services	1,919,935	1,118,111	-	540,076	3,578,122	303,035
Travel and Transportation	48	-	-	-	48	-
Contractual Services	1,015,931	784,660	152	40,483	1,841,226	58,632
Materials and Supplies	154,412	80,323	63,059	135,278	433,072	498,397
Depreciation	1,882,873	78,347	-	417,946	2,379,166	47,464
Other	71,936	3,352	-	61,060	136,348	-
Total Operating Expenses	<u>5,045,135</u>	<u>2,064,793</u>	<u>63,211</u>	<u>1,194,843</u>	<u>8,367,982</u>	<u>907,528</u>
Operating Income (Loss)	<u>834,953</u>	<u>(408,451)</u>	<u>(63,211)</u>	<u>183,850</u>	<u>547,141</u>	<u>159,791</u>
<u>Non-Operating Expenses</u>						
Interest Expense	(752,586)	-	(44,943)	(440,474)	(1,238,003)	(3,526)
Loss on Disposal of Capital Assets	-	-	-	(6,543)	(6,543)	-
Total Non-Operating Expenses	<u>(752,586)</u>	<u>-</u>	<u>(44,943)</u>	<u>(447,017)</u>	<u>(1,244,546)</u>	<u>(3,526)</u>
Income (Loss) before Contributions and Transfers	82,367	(408,451)	(108,154)	(263,167)	(697,405)	156,265
Capital Contributions	600,719	-	-	772,773	1,373,492	-
Transfers In	10,685	-	-	-	10,685	-
Transfers Out	(579,137)	-	-	(1,075,277)	(1,654,414)	-
Changes in Net Assets	114,634	(408,451)	(108,154)	(565,671)	(967,642)	156,265
Net Assets (Deficit) Beginning of Year	<u>2,321,821</u>	<u>2,732,569</u>	<u>(2,941,796)</u>	<u>8,322,028</u>		<u>559,298</u>
Net Assets (Deficit) End of Year	<u>\$ 2,436,455</u>	<u>\$ 2,324,118</u>	<u>\$ (3,049,950)</u>	<u>\$ 7,756,357</u>		<u>\$ 715,563</u>

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

29,690

Change in Net Assets of Business-Type Activities

\$ (937,952)

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

						Activities
	Sewer	Sanitation	Landfill	Storm Water	Total Enterprise	Internal Service
Increases (Decreases) in Cash and Cash Equivalents						
<u>Cash Flows from Operating Activities</u>						
Cash Received from Customers	\$ 5,313,216	\$ 2,012,418	\$ -	\$ 1,042,601	\$ 8,368,235	\$ 1,059,128
Cash Payments for Personal Services	(1,970,313)	(1,147,759)	-	(530,826)	(3,648,898)	(298,578)
Cash Payments for Contractual Services	(840,534)	(836,080)	(63,964)	(260,097)	(2,000,675)	(56,215)
Cash Payments to Vendors	(677,720)	(79,349)	(107,217)	(236,500)	(1,100,786)	(522,652)
Cash Received from Other Revenues	122,319	22,561	-	154,420	299,300	36,451
Cash Payments for Other Expenses	(71,936)	(3,352)	-	(61,060)	(136,348)	-
Net Cash Provided by (Used for) Operating Activities	<u>1,875,032</u>	<u>(31,561)</u>	<u>(171,181)</u>	<u>108,538</u>	<u>1,780,828</u>	<u>218,134</u>
<u>Cash Flows from Noncapital Financing Activities</u>						
Transfers Out	(118,218)	-	-	(130,976)	(249,194)	-
<u>Cash Flows from Capital and Related Financing Activities</u>						
Capital Grants	279,774	-	-	371,030	650,804	-
Principal Paid on Bond Anticipation Notes	(5,216,150)	-	-	(5,383,850)	(10,600,000)	(1,380,000)
Principal Paid on General Obligation Bonds	(330,790)	-	-	(488,960)	(819,750)	(100,000)
Principal Paid on OWDA Loans	(1,611,688)	-	(160,130)	(255,437)	(2,027,255)	-
Principal Paid on OPWC Loans	(70,902)	-	-	(6,543)	(77,445)	-
Interest Paid on Bond Anticipation Notes	(111,813)	-	-	(117,942)	(229,755)	(38,588)
Interest Paid on General Obligation Bonds	(226,866)	-	-	(351,821)	(578,687)	(34,869)
Interest Paid on OWDA Loans	(309,999)	-	(44,943)	-	(354,942)	-
Payment to Refunded Bond Escrow Agent	(1,883,870)	-	-	(3,403,120)	(5,286,990)	-
Bond Anticipation Notes Issued	3,130,400	-	150,000	2,619,600	5,900,000	-
General Obligation Bonds Issued	6,065,347	-	-	8,905,053	14,970,400	1,376,250
OWDA Loans Issued	208,994	-	-	255,437	464,431	-
OPWC Loans Issued Proceeds	99,047	-	-	113,380	212,427	-
Acquisition of Capital Assets	(2,577,324)	-	-	(3,335,436)	(5,912,760)	-
Net Cash Used for Capital and Related Financing Activities	<u>(2,555,840)</u>	<u>-</u>	<u>(55,073)</u>	<u>(1,078,609)</u>	<u>(3,689,522)</u>	<u>(177,207)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(799,026)	(31,561)	(226,254)	(1,101,047)	(2,157,888)	40,927
Cash and Cash Equivalents Beginning of Year	<u>4,814,589</u>	<u>31,561</u>	<u>306,208</u>	<u>4,457,191</u>	<u>9,609,549</u>	<u>139,909</u>
Cash and Cash Equivalents End of Year	<u>\$ 4,015,563</u>	<u>\$ -</u>	<u>\$ 79,954</u>	<u>\$ 3,356,144</u>	<u>\$ 7,451,661</u>	<u>\$ 180,836</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>						
Operating Income (Loss)	834,953	(408,451)	(63,211)	183,850	547,141	159,791
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>						
Depreciation	1,882,873	78,347	-	417,946	2,379,166	47,464
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable	(444,429)	265,184	-	(181,672)	(360,917)	-
(Increase) Decrease in Interfund Receivable	(113,577)	-	152	-	(113,425)	28,260
(Increase) Decrease in Prepaid Items	15,243	3,725	4,589	(3,298)	20,259	1,314
(Increase) Decrease in Materials and Supplies Inventory	(22,688)	162	-	167	(22,359)	(44,808)
Increase (Decrease) in Accrued Wages Payable	(4,150)	2,495	-	8,395	6,740	138
Increase (Decrease) in Accounts Payable	33,612	(5,981)	(3,478)	20,286	44,439	21,498
Increase (Decrease) in Contracts Payable	(290,939)	(18,275)	10,726	(372,661)	(671,149)	-
Increase (Decrease) in Due to Other Governments	(12,127)	(33,674)	124	4,287	(41,390)	(72)
Increase (Decrease) Interfund Payable	10,184	110,138	-	(4,124)	116,198	-
Increase in Retainage Payable	30,982	-	-	41,068	72,050	-
Increase (Decrease) in Compensated Absences Payable	(44,905)	(25,231)	-	(5,706)	(75,842)	4,549
Decrease in Postclosure Costs Payable	-	-	(120,083)	-	(120,083)	-
Net Cash Provided by (Used for) Operating Activities	<u>\$ 1,875,032</u>	<u>\$ (31,561)</u>	<u>\$ (171,181)</u>	<u>\$ 108,538</u>	<u>\$ 1,780,828</u>	<u>\$ 218,134</u>
<u>Non-Cash Capital Financing Activities</u>						

At December 31, 2010, the Sewer and Storm Water enterprise funds had a receivable for grants related to capital assets, in the amount of \$320,945 and \$401,743, respectively.

In 2010, the Storm Water enterprise fund purchased capital assets and donated them to the Sewer enterprise fund, in the amount of \$10,685.

CITY OF MARION
MARION COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2010

Assets

Equity in Pooled Cash and Cash Equivalents	\$ 50,688
Cash and Cash Equivalents in Segregated Accounts	<u>36,114</u>
Total Assets	<u>\$ 86,802</u>

Liabilities

Undistributed Assets	<u>\$ 86,802</u>
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See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

A. The City

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

The City operates under a mayor-council form of government. Legislative power is vested in nine-member council and a council president, each elected to two-year terms. The Mayor is elected to a four-year term and is the chief executive officer of the City. All City officials, with the exception of the Safety Director and Service Director, are elected positions. The Safety Director and Service Director are appointed by the Mayor.

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

B. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Marion in 2010.

The City participates in two insurance pools, the Ohio Municipal Joint Self-Insurance Pool and the Ohio Rural Water Association Workers' Compensation Group Rating Plan, and a related organization, the Marion County General Health District. These organizations are presented in Notes 23 and 24 to the basic financial statements.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

Fund Financial Statements

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds

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

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

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

Bond Retirement Fund - This fund accounts for the accumulation of resources for, and the payment of principal, interest, and fiscal charges on general obligation debt.

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

Proprietary Funds

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

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

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

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications; pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2010. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for employee payroll withholdings and deductions, for insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished, fines and fees collected by the Marion Municipal Court (excluding those due to the City of Marion), and fines collected by the City for traffic and parking violations distributed to other parties.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2010, but were levied to finance 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

Cash and cash equivalents that are held separately within departments of the City are recorded as "Cash and Cash Equivalents in Segregated Accounts".

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During 2010, investments included non-negotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. Non-negotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market price or current share price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2010.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2010 was \$355,445, which includes \$334,550 assigned from other City funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

J. Capital Assets

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. The City reports all infrastructure, including that acquired prior to 1980. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	20-50 years	20-25 years
Buildings and Building Improvements	10-100 years	15-75 years
Equipment	5-40 years	8-50 years
Vehicles	5-30 years	5-15 years
Streets	10-40 years	N/A
Sewer and Storm Water Lines	N/A	50 years

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving paying in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in City policies or by union contracts. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service.

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes, general obligation bonds, long-term loans, and capital leases are recognized as liabilities on the fund financial statements when due.

N. Bond Discounts

On enterprise fund financial statements bond discounts are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for maintenance and repair of State highways, various economic development related grants, the transit system, and a number of law enforcement grants. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Fund Balance Reserves and Designations

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

A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by City Council. The designation of fund balance represents monies set aside by City Council for the future payment of termination benefits.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer, sanitation, and storm water, charges for anticipated postclosure costs in the landfill, and charges for vehicle maintenance in the internal service fund. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

R. Capital Contributions

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

S. Interfund Transactions

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

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

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.

T. Estimates

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 3 - RESTATEMENT OF NET ASSETS

In the prior year, the City did not correctly calculate the receivable for payment in lieu of taxes.

The restatement had the following effect on net assets:

	Governmental Activities
Net Assets at December 31, 2009	\$56,602,180
Payment in Lieu of Taxes Receivable	(357,782)
Restated Net Assets at December 31, 2009	\$56,244,398

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2010 the following funds had deficit fund balances/net assets:

Fund Type/Fund	Deficit
Major Funds	
General Fund	\$1,421,555
Bond Retirement Fund	385,823
Nonmajor Special Revenue Funds	
Violence Against Women	22,358
School Resource Officer	47,146
Parks	17,174
Community Corrections	77,337
Police and Fire Pension	94,230
Homeland Security Grant	18,632
Neighborhood Stabilization	275,126
Marion Area Transit	69,715
Nonmajor Capital Projects Funds	
DRIP Infrastructure	3,128
Harding Centre Loan	5,111
Airport Improvement	71,353
Street Improvement	181,378
Enterprise Fund	
Landfill	3,049,950

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (continued)

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

The deficit net assets in the Landfill enterprise fund resulted from the requirement to report future postclosure costs. The City is setting aside resources to pay these future costs as they come due.

B. Compliance

The following funds had final appropriations in excess of estimated resources plus available balances for the year ended December 31, 2010.

Fund Type/Fund	Estimated Resources Plus Available Balances	Appropriations	Excess
Special Revenue Funds			
American Recovery and Reinvestment Act	\$674,693	\$775,790	\$101,097
Street Construction, Maintenance and Repair	2,409,663	3,127,910	718,247
Court Computerization	12,682	19,500	6,818
Parks	550,020	621,735	71,715
Community Corrections	158,538	167,389	8,851
Neighborhood Stabilization	989,973	1,058,229	68,256
Capital Improvement	2,636,452	5,110,057	2,473,605
Enterprise Fund			
Sanitation	2,194,010	2,427,227	233,217

The Auditor will review appropriations to ensure they are within estimated resources.

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2010.

Fund Program/Department/Object	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
General Government - Other			
Mayor			
Personal Services	\$146,964	\$148,277	\$1,313
City Auditor			
Personal Services	328,491	330,689	2,198
Materials and Supplies	4,630	4,682	52
Law Director			
Personal Services	314,768	368,829	54,061

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (continued)

Fund Program/Department/Object	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund (continued)			
Human Resources Director			
Contractual Services	\$30,897	\$31,533	\$636
Council			
Personal Services	116,318	132,132	15,814
Contractual Services	12,023	32,690	20,667
Other	0	100	100
Engineering			
Personal Services	403,353	405,568	2,215
Other General Government			
Contractual Services	548,409	554,765	6,356
Other	180	18,179	17,999
General Government - Court			
Municipal Court			
Personal Services	713,884	774,564	60,680
Security of Persons and Property - Police			
Police Department			
Personal Services	5,113,254	5,608,109	494,855
Materials and Supplies	138,521	160,946	22,425
Security of Persons and Property - Fire			
Fire Department			
Capital Outlay	1,782	13,837	12,055
Other	0	43	43
Public Health Services			
Health - Administration			
Personal Services	35,586	59,703	24,117
Other	3,890	16,299	12,409
Health Inspection			
Personal Services	0	8,776	8,776
WIC			
Personal Services	0	12,087	12,087
Leisure Time Activities			
Recreation			
Personal Services	238,000	273,932	35,932
Pool			
Personal Services	48,249	57,765	9,516
Transportation - Other			
Airport			
Capital Outlay	7,654	13,084	5,430

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (continued)

Fund Program/Department/Object	Appropriations	Expenditures Plus Encumbrances	Excess
Special Revenue Funds			
American Recovery and Reinvestment Act			
Transportation - Transit			
Marion Area Transit			
Capital Outlay	\$0	\$331,797	\$331,797
General Government - Other			
Other General Government			
Capital Outlay	155,000	229,813	74,813
Street Construction, Maintenance and Repair			
Transportation - Other			
Streets			
Personal Services	1,389,827	1,401,518	11,691
Capital Outlay	41,442	90,095	48,653
MMC Assistance			
General Government - Court			
Municipal Court			
Travel and Transportation	1,048	1,214	166
Materials and Supplies	2,000	4,682	2,682
Violence Against Women			
Security of Persons and Property - Police			
Police Department			
Personal Services	71,593	78,019	6,426
Retirement/Term/27 th Pay			
General Government - Other			
Other General Government			
Other	0	15,846	15,846
Community Corrections			
General Government - Other			
Other General Government			
Contractual Services	19,380	29,253	9,873
Materials and Supplies	0	9,816	9,816
Special Projects			
General Government - Court			
Municipal Court			
Contractual Services	0	4,882	4,882

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (continued)

Fund Program/Department/Object	Appropriations	Expenditures Plus Encumbrances	Excess
Special Revenue Funds (continued)			
Police and Fire Pension			
Security of Persons and Property - Fire			
Fire Department			
Personal Services	\$0	\$125,597	125,597
Other	0	1,917	1,917
Homeland Security Grant			
Security of Persons and Property - Police			
Police Department			
Capital Outlay	0	18,632	18,632
Community Distress			
Community Environment			
Community Distress Program			
Contractual Services	1,679	35,934	34,255
Marion Area Transit			
Transportation - Transit			
Marion Area Transit			
Materials and Supplies	83,564	89,066	5,502
Debt Service Fund			
Bond Retirement			
Debt Service			
Debt Service			
Principal Retirement	50,000	3,715,250	3,665,250
Interest and Fiscal Charges	44,975	160,755	115,780
Payment to Refunded Bond			
Escrow Agent	0	790,010	790,010
Capital Projects Funds			
Tax Incremental Financing			
Transportation - Other			
Airport			
Other	0	32,265	32,265
Capital Improvement			
Security of Persons and Property - Police			
Police Department			
Capital Outlay	40,743	53,162	12,419
General Government - Other			
Other General Government			
Other	0	35	35

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (continued)

Fund Program/Department/Object	Appropriations	Expenditures Plus Encumbrances	Excess
Capital Project Funds (continued)			
DRIP Infrastructure			
Transportation - Other			
Street			
Capital Outlay	\$740	\$466,001	\$465,261
Airport Improvement			
Transportation - Other			
Airport			
Contractual Services	117,095	128,700	11,605
Capital Outlay	0	60,712	60,712
Street Improvement			
Transportation - Other			
Street			
Capital Outlay	0	48,672	48,672
Other	0	185,089	185,089
Enterprise Funds			
Sewer			
Sewer Revenue			
Other	0	68,584	68,584
Sanitary Sewer Improvement			
Capital Outlay	4,678,315	6,266,544	1,588,229
Utility Billing			
Other	0	3,352	3,352
Debt Service			
Principal	7,086,706	7,229,530	142,824
Payment to Refunded Bond Escrow Agent	0	1,883,870	1,883,870
Sanitation			
Utility Billing			
Other	0	3,352	3,352
Landfill			
Materials and Supplies	0	62	62
Landfill			
Landfill			
Capital Outlay	50,000	115,000	65,000
Debt Service			
Principal Retirement	150,121	160,130	10,009

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (continued)

Fund Program/Department/Object	Appropriations	Expenditures Plus Encumbrances	Excess
Enterprise Funds (continued)			
Storm Water			
Storm Water Utility			
Other	(\$2,391)	\$57,606	\$59,997
Storm Sewer			
Capital Outlay	410,091	1,092,841	682,750
Storm Water Improvement			
Capital Outlay	4,500,000	4,858,834	358,834
Utility Billing			
Other	0	3,454	3,454
Debt Service			
Principal Retirement	5,806,935	6,134,790	327,855
Interest Expense	441,160	469,763	28,603
Payment to Refunded Bond Escrow Agent	0	3,403,120	3,403,120
Internal Service Fund			
Central Garage			
Central Garage Materials and Supplies	0	581,177	581,177

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

At December 31, 2010, the Street Construction, Maintenance, and Repair, Violence Against Women, School Resource Officer, Homeland Security Grant, Neighborhood Stabilization, and Marion Area Transit special revenue funds, the Bond Retirement debt service fund, the DRIP Infrastructure capital projects fund, and the Sanitation enterprise fund had deficit cash balances, in the amount of \$9,597, \$11,689, \$22,929, \$18,632, \$38,372, \$22,293, \$385,823, \$3,128 and \$113,453, respectively.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

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

	General	Street Construction , Maintenance , and Repair
GAAP Basis	(\$2,820,311)	\$75,863
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2009, Received in Cash 2010	1,235,458	136,124
Accrued 2010, Not Yet Received in Cash	(1,124,744)	104,799
Expenditure Accruals:		
Accrued 2009, Paid in Cash 2010	(1,559,303)	(497,305)
Accrued 2010, Not Yet Paid in Cash	1,572,173	575,675
Cash Adjustments:		
Unrecorded Activity 2009	98,227	749
Unrecorded Activity 2010	(69,848)	0
Prepaid Items	33,595	3,444
Materials and Supplies Inventory	6,364	0
Advances In	121,777	0
Transfers In		(681,228)
Transfer Out	860,250	0
Encumbrances Outstanding at Year End (Budget Basis)	(151,735)	(175,648)
Budget Basis	<u>(\$1,798,097)</u>	<u>(\$457,527)</u>

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$348,062 of the City's bank balance of \$3,089,098 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

As of December 31, 2010, the City had the following investments:

	Total	Less Than Six Months	Six Months to One Year	One Year to Two Years	More Than Two Years
Negotiable Certificates of Deposit	\$5,673,186	\$2,800,972	\$500,000	\$763,418	\$1,608,796
Federal Home Loan Bank	994,190	0	0	0	994,190
Federal National Mortgage Association	1,382,278	0	0	0	1,382,278
Federal Farm Credit Bank	548,504	0	0	0	548,504
Federal Home Loan Mortgage Corporation	990,490	0	0	0	990,490
Mutual Funds	1,046,855	1,046,855	0	0	0
STAR Ohio	213,041	213,041	0	0	0
Total	<u>\$10,848,544</u>	<u>\$4,060,868</u>	<u>\$500,000</u>	<u>\$763,418</u>	<u>\$5,524,258</u>

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Negotiable Certificates of Deposit	\$5,673,186	52.29%
Federal Home Loan Bank	994,190	9.16
Federal National Mortgage Association	1,382,278	12.74
Federal Farm Credit Bank	548,504	5.06
Federal Home Loan Mortgage Corporation	990,490	9.13

NOTE 7 - RECEIVABLES

Receivables at December 31, 2010, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; interfund; property taxes; payment in lieu of taxes, and notes. Receivables are considered collectible in full and within one year, except for municipal income taxes, interfund, property taxes, notes, and the allowance for uncollectibles related to utility services. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$1,007,670 will not be received within one year.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 7 - RECEIVABLES (continued)

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant program. The notes have an annual interest rate of 2 percent to 3 percent and are to be repaid over periods ranging from ten to thirty years. A summary of the changes in notes receivable during 2010 follows:

	Balance December 31, 2009	New Loans	Repayments	Balance December 31, 2010
Special Revenue Fund				
CDBG Revolving Loan	\$709,949	\$0	\$2,038	\$707,911
Capital Projects Fund				
Harding Centre Loan	363,897	0	30,223	333,674
	<u>\$1,073,846</u>	<u>\$0</u>	<u>\$32,261</u>	<u>\$1,041,585</u>

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

	Sewer	Sanitation	Storm Water	Total Enterprise Funds
Accounts Receivable	\$2,428,724	\$3,764,721	\$737,982	\$6,931,427
Less Allowance for Uncollectibles	0	1,643,792	0	1,643,792
Net Accounts Receivable	<u>\$2,428,724</u>	<u>\$2,120,929</u>	<u>\$737,982</u>	<u>\$5,287,635</u>

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$84,417
Personal Property Phase-Out	16,625
Local Government	684,373
Cigarette Tax	525
Estate Tax	60,791
Bullet proof Vest Grant	4,200
Beer and Liquor Permits	165
Total General Fund	<u>851,096</u>
	(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
Major Funds (continued)	
Street Construction, Maintenance, and Repair	
Gasoline Tax	\$516,836
Motor Vehicle License Tax	122,131
Total Street Construction, Maintenance, and Repair	638,967
Total Major Funds	1,490,063
Nonmajor Funds	
Senior Citizens	
Ohio District 5 Agency on Aging	2,568
American Recovery and Reinvestment Act	
ARRA	119,086
State Highway	
Gasoline Tax	40,673
Muni Court Docket Specialist	
Muni Court Docket Specialist	3,671
Violence Against Women	
Violence Against Women	27,336
School Resource Officer	
School Resource Officer	14,815
Community Corrections	
Community Based Corrections	83,695
Indigent Drivers Alcohol	
Indigent Drivers Alcohol	5,647
Police and Fire Pension	
Homestead and Rollback	15,292
Personal Property Phase-Out	2,919
Total Police and Fire Pension	18,211
CHIP Grant	
CHIP Grant	3,839
Neighborhood Stabilization	
Neighborhood Stabilization Grant	397,021
	(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 7 - RECEIVABLES (continued)

	<u>Amount</u>
Government Activities (continued)	
Nonmajor Funds (continued)	
CDBG Formula Grant	
CDBG Formula Grant	\$20,000
Street Improvement	
Ohio Public Works Commission	181,378
Total Nonmajor Funds	<u>917,940</u>
Total Governmental Activities	<u><u>\$2,408,003</u></u>
Business-Type Activities	
Major Fund	
Sewer	
Ohio Public Works Commission	\$149,033
Storm Water	
Ohio Public Works Commission	191,628
Total Business Type Activities	<u><u>\$340,661</u></u>

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies an income tax of 1.75 percent on all income earned within the City as well as on income of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax revenue is credited to the General Fund; the Street Construction, Maintenance, and Repair special revenue fund, and the Capital Improvements capital projects fund, in the amount of 1.65 percent, .05 percent, and .05 percent, respectively.

NOTE 9 - PROPERTY TAXES

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 9 - PROPERTY TAXES (continued)

Public utility property tax revenues received in 2010 represent the collection of 2009 taxes. Public utility real and tangible personal property taxes received in 2010 became a lien on December 31, 2008, were levied after October 1, 2009, 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 calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2010, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2010 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder has been deferred.

The full tax rate applied to real property for the year ended December 31, 2010, per taxing district, per \$1,000 of assessed valuation are as follows:

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 9 - PROPERTY TAXES (continued)

The assessed values of real property, public utility property, and tangible personal property upon which 2010 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$295,173,850
Commercial/Industrial	75,643,160
Public Utility Real	1,758,790
Public Utility Personal	21,834,590
Tangible Personal	425,380
Total	\$394,835,770

NOTE 10 - PAYMENT IN LIEU OF TAXES

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

NOTE 11 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$8,703,039	\$0	\$0	\$8,703,039
Construction in Progress	1,799,093	741,570	(639,430)	1,901,233
Total Nondepreciable Capital Assets	10,502,132	741,570	(639,430)	10,604,272
Depreciable Capital Assets				
Land Improvements	287,301	0	0	287,301
Buildings and Building Improvements	25,017,389	0	0	25,017,389
Equipment	1,774,505	679,430	0	2,453,935
Vehicles	4,825,771	90,916	(63,747)	4,852,940
Streets	60,137,690	1,567,303	(647,089)	61,057,904
Total Depreciable Capital Assets	92,042,656	2,337,649	(710,836)	93,669,469

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 11 - CAPITAL ASSETS (continued)

	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010
Less Accumulated Depreciation for				
Land Improvements	(\$154,338)	(\$11,697)	\$0	(\$166,035)
Buildings and Building Improvements	(4,153,466)	(375,099)	0	(4,528,565)
Equipment	(817,366)	(101,465)	0	(918,831)
Vehicles	(1,846,293)	(296,874)	52,431	(2,090,736)
Streets	(39,218,417)	(2,041,384)	445,792	(40,814,009)
Total Accumulated Depreciation	(46,189,880)	(2,826,519)	498,223	(48,518,176)
Total Depreciable Capital Assets, Net	45,852,776	(488,870)	(212,613)	45,151,293
Governmental Activities Capital Assets, Net	\$56,354,908	\$252,700	(\$852,043)	\$55,755,565
	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$699,886	\$0	\$0	\$699,886
Construction in Progress	0	2,266,954	0	2,266,954
Total Nondepreciable Capital Assets	699,886	2,266,954	0	2,966,840
Depreciable Capital Assets				
Land Improvements	96,191	0	0	96,191
Buildings	24,072,457	0	0	24,072,457
Equipment	4,576,272	38,370	0	4,614,642
Vehicles	1,568,258	0	0	1,568,258
Sewer and Storm Water Lines	29,738,943	6,415,687	(72,778)	36,081,852
Total Depreciable Capital Assets	60,052,121	6,454,057	(72,778)	66,433,400
Less Accumulated Depreciation for				
Land Improvements	(50,024)	(3,848)	0	(53,872)
Buildings	(6,662,581)	(1,579,053)	0	(8,241,634)
Equipment	(2,477,391)	(187,253)	0	(2,664,644)
Vehicles	(949,391)	(97,163)	0	(1,046,554)
Sewer and Storm Water Lines	(13,716,395)	(511,849)	66,235	(14,162,009)
Total Accumulated Depreciation	(23,855,782)	(2,379,166)	66,235	(26,168,713)
Total Depreciable Capital Assets, Net	36,196,339	4,074,891	(6,543)	40,264,687
Business-Type Activities Capital Assets, Net	\$36,896,225	\$6,341,845	(\$6,543)	\$43,231,527

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 11 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$131,056
Security of Persons and Property - Fire	98,136
Public Health	318
Leisure Time Activities	43,506
Transportation - Transit	53,469
Transportation - Other	2,198,049
General Government - Court	10,951
General Government - Other	291,034
Total Depreciation Expense - Governmental Activities	\$2,826,519

NOTE 12 - INTERFUND RECEIVABLES/PAYABLES

Interfund balances at December 31, 2010, consisted of the following individual fund receivables and payables:

Due to General Fund from:

Street, Construction, Maintenance, and Repair	\$9,597
Other Governmental	594,778
Total General Fund	\$604,375

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

General	\$1,219,455
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Due to Other Governmental Funds from:

General	\$384,971
Bond Retirement Fund	385,823
Total Other Governmental Funds	\$770,794

Due to Sewer Fund from:

General	\$124
Sanitation	113,453
Total Sewer Fund	\$113,577

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 12 - INTERFUND RECEIVABLES/PAYABLES (continued)

Due to Internal Service Fund from:

General	\$24,950
Street Construction, Maintenance, and Repair	24,202
Other Governmental	18,973
Sewer	10,336
Sanitation	8,458
Storm Water	1,160
Total Internal Service Fund	\$88,079

The balance due to the General Fund consists of loans made to provide working capital for operations or projects. With the exception of \$314,000, all of this amount is expected to be received within one year.

The amount due to the Street Construction, Maintenance, and Repair Fund was for misallocated income tax revenue provided to the General Fund. This amount is expected to be received within one year.

The amount due to other governmental funds was for services provided and misallocated income tax revenue provided to the General Fund. This amount is expected to be received within one year.

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

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

NOTE 13 - RISK MANAGEMENT

The City participates in the Ohio Municipal Joint Self-Insurance Pool, a public entity shared risk pool. The City pays an annual premium to the pool for various types of insurance coverage. Member municipalities agree to share in the coverage of losses and pay all premiums necessary for the specified insurance coverage. Upon withdrawal from the Pool, a participant is responsible for the payment of all liabilities accruing as a result of withdrawal. During 2010, the City had the following insurance coverage:

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 13 - RISK MANAGEMENT (continued)

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

For 2010, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan. To maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the Plan. Each year, the City pays an enrollment fee to the Plan to cover the costs of administering the program.

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

NOTE 14 - SIGNIFICANT CONTRACTUAL COMMITMENTS

The City has several outstanding contracts for professional services. The following amounts remain on these contracts as of December 31, 2010:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid as of 12/31/10</u>	<u>Outstanding Balance</u>
Park Enterprise Construction	1,875,000	848,658	1,026,342
Reynolds Inliner	1,958,316	350,556	1,607,760
Underground Utilities	2,225,000	373,351	1,851,649
Underground Utilities	2,406,662	1,036,168	1,370,494

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for public safety and law enforcement employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, public safety and law enforcement divisions exist only within the traditional plan. For 2010, member and employer contribution rates were consistent across all three plans.

The City's 2010 contribution rate was 14 percent, except for those plan members in public safety or law enforcement, for whom the City's contribution was 17.87 percent of covered payroll. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in the traditional plan was 5.5 percent from January 1, through February 28, 2010, and 5 percent from March 1, through December 31, 2010. The portion of the employer contribution allocated to health care for members in the combined plan was 4.73 percent from January 1, through February 28, 2010, and 4.23 percent from March 1, through December 31, 2010. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2010, 2009, and 2008 was \$987,965, \$1,109,328 and \$870,553, respectively. For 2010, 88 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008. Contributions to the member-directed plan for 2010 were \$30,082 made by the City and \$21,487 made by the plan members.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 15 - DEFINED BENEFIT PENSION PLANS (continued)

B. Ohio Police and Fire Pension Fund

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

Funding Policy - The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2010, the portion of the City's contribution used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contribution to OPF for police and firefighters pension was \$789,864 and \$781,941 for the year ended December 31, 2010, \$754,250 and \$751,111, for the year ended December 31, 2009, and \$735,953 and 753,345, for the year ended December 31, 2008. For 2010, 81 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

NOTE 16 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

**CITY OF MARION
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 16 - POSTEMPLOYMENT BENEFITS (continued)

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed 14 percent of covered payroll and public safety and law enforcement employers contributed 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for public safety and law enforcement employer units.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in the traditional plan was 5.5 percent from January 1, through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of the employer contribution allocated to health care for members in the combined plan was 4.73 percent from January 1, through February 28, 2010, and 4.23 percent from March 1, through December 31, 2010.

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

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2010, 2009, and 2008 was \$360,553, \$455,461, and \$547,875, respectively. For 2010, 88 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

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

B. Police and Fire Pension Fund

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

OPF provides access to postretirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 16 - POSTEMPLOYMENT BENEFITS (continued)

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2010, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters was \$250,898 and \$227,015 for the year ended December 31, 2010, \$239,585 and \$218,065 for the year ended December 31, 2009, and \$233,773 and \$218,713 for the year ended December 31, 2008. For 2010, 81 percent has been contributed for both police and or firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

NOTE 17 - COMPENSATED ABSENCES

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

City employees earn and accumulate vacation at varying rates depending upon length of service and standard work week. Employees are paid for 100 percent of earned unused vacation leave upon termination.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 17 - COMPENSATED ABSENCES (continued)

Sick leave is earned at various rates as defined by City policy and union contracts. Upon retirement, employees are entitled to the value of their accumulated unused sick leave at varying percentages to a maximum of ninety to one hundred twelve and one-half days based on City policy and union contracts.

NOTE 18 - NOTES PAYABLE

The changes in the City's notes payable during 2010 were as follows:

	Interest Rate	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010
<u>Business-Type Activities</u>					
<u>General Obligation Bond Anticipation Notes</u>					
2009A Various Purpose	2.75%	\$2,425,000	\$0	\$2,425,000	\$0
2009B Various Purpose	1.75	8,175,000	0	8,175,000	0
2010 Various Purpose	1.25	0	5,900,000	0	5,900,000
Total Business-Type Activities		<u>\$10,600,000</u>	<u>\$5,900,000</u>	<u>\$10,600,000</u>	<u>\$5,900,000</u>

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

On June 26, 2009, the City issued \$2,425,000 in bond anticipation notes; \$1,850,000 for sewer and storm water improvements on Blaine Avenue and \$575,000 for sewer and storm water improvements on Forest Lawn Boulevard. The notes had an interest rate of 2.75 percent and matured on June 23, 2010. The notes were paid from the Sewer and Storm Water enterprise funds.

On October 15, 2009, the City issued \$8,175,000 in bond anticipation notes to retire notes previously issued; \$4,150,400 for sewer improvements and \$4,024,600 for storm water improvements. The notes had an interest rate of 1.75 percent and matured on October 13, 2010.

On July 29, 2010, the City issued \$5,900,000 in bond anticipation notes; \$3,130,400 for sewer improvements, \$2,619,600 for storm water improvements, and \$150,000 for landfill improvements. As of December 31, 2010, the City had unspent proceeds of \$1,462,000 and \$1,937,600 in the Sewer and Storm Water funds, respectively. The \$150,000 for the landfill was spent on items which were not capitalized.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2010, was as follows:

	Interest Rate	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010	Due Within One Year
<u>Governmental Activities</u>						
Bond Anticipation Notes						
2009A Various Purpose	2.75%	\$2,330,000	\$0	\$2,330,000	\$0	\$0
2009B Various Purpose	1.75	2,830,000	0	2,830,000	0	0
2010A Various Purpose	1.25	0	2,400,000	0	2,400,000	2,400,000
2010B Various Purpose	2.25	0	250,000	0	250,000	250,000
Total Bond Anticipation Notes		5,160,000	2,650,000	5,160,000	2,650,000	2,650,000
General Obligation Bonds						
2000 Police and Fire Pension (Original Amount \$1,145,000)	4.35-5.40	765,000	0	765,000	0	0
2010 Police and Fire Pension Refunding	2-4.3	0	794,300	57,850	736,450	66,300
2010 Street Improvement	2-4.3	0	1,598,850	85,800	1,513,050	56,100
2010 Computer Equipment	2-4.3	0	775,200	41,600	733,600	27,200
2010 City Hall Roof	2-3.75	0	110,000	0	110,000	5,000
2010 Generator	2-3.75	0	225,000	0	225,000	10,000
2010 Fire Truck	2-3.75	0	320,000	0	320,000	30,000
2010 Police Records	2-3.75	0	355,000	0	355,000	30,000
2010 Central Garage	1.75-4	0	1,376,250	100,000	1,276,250	47,500
Total General Obligation Bonds		765,000	5,554,600	1,050,250	5,269,350	272,100
Other Long-Term Obligations						
ODOT DRIP TIF (Original Amount \$2,105,884)	0.00	757,312	0	73,710	683,602	76,124
OPWC Loan #CP10D Marion Williamsport Road Improvements (Original Amount \$128,202)	0.00	80,127	0	3,205	76,922	6,410
Capital Loans Payable		378,213	0	74,049	304,164	76,919
Capital Leases Payable		39,581	0	39,581	0	0
Compensated Absences Payable		4,479,399	403,311	406,997	4,475,713	565,918
Total Other Long-Term Obligations		5,734,632	403,311	597,542	5,540,401	725,371
Total Governmental Activities		\$11,659,632	\$8,607,911	\$6,807,792	\$13,459,751	\$3,647,471

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010	Due Within One Year
Business-Type Activities						
General Obligation Bonds						
2000 Various Purpose						
(Original Amount \$7,585,000)	4.35-5.40%	\$5,055,000	\$0	\$5,055,000	\$0	\$0
Discount		(32,150)	0	(32,150)	0	0
2010 Various Purpose A						
(Original Amount \$5,892,550)	2-4.3	0	7,786,650	519,750	7,266,900	530,400
2010 Various Purpose B						
(Original Amount \$7,183,750)	1.75-4	0	7,183,750	300,000	6,883,750	257,500
Total General Obligation Bonds		5,022,850	14,970,400	5,842,600	14,150,650	787,900
Other Long-Term Obligations						
OWDA Loans						
#2335 Solids Handling						
(Original Amount \$2,290,314)	4.56	996,192	0	134,916	861,276	141,139
#2336 Landfill Closure						
(Original Amount \$2,720,754)	4.35	1,072,794	0	160,130	912,664	167,172
#3397 WRRSP						
(Original Amount \$5,366,955)	1.50	3,667,957	0	257,550	3,410,407	261,428
#3398 WWTP Upgrade						
(Original Amount \$20,784,201)	1.50	14,387,387	0	1,010,228	13,377,159	1,025,438
#5394 Franconia Avenue						
(Original Amount \$464,431)		0	464,431	464,431	0	0
Total OWDA Loans		20,124,330	464,431	2,027,255	18,561,506	1,595,177
OPWC Loans						
#CP06G Mary St Sanitary Sewer/Storm Water Replacement						
(Original Amount \$29,232)	0.00	22,654	0	731	21,923	1,462
#CP10F Uncapher Ave/ Florence St Sanitary Sewer/ Storm Water Replacement						
(Original Amount \$268,990)	0.00	181,571	0	6,725	174,846	13,449
#CP16E Avondale Ave/ Catalina Dr Storm Water						
(Original Amount \$119,185)	0.00	71,511	0	2,980	68,531	5,960

(continued)

**CITY OF MARION
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010	Due Within One Year
<u>Business-Type Activities</u> (continued)						
OPWC Loans (continued)						
#CP18A Industrial Depot Sanitary Sewer (Original Amount \$157,168)	0.00%	\$47,150	\$0	\$5,239	\$41,911	\$10,478
#CP33E Water Pollution Control Upgrade (Original Amount \$1,070,800)	0.00	749,560	0	26,770	722,790	53,540
#CP522 Airport Industrial Park Sanitary Sewer (Original Amount \$700,000)	0.00	175,000	0	35,000	140,000	35,000
#CP14L Franconia Avenue Sanitary Sewer and Storm Water Replacement (Original Amount \$96,838)	0.00	0	96,838	0	96,838	0
#CP05K Oakgrove and Waterloo Sanitary Sewer and Storm Water Replacement (Original Amount \$115,589)	0.00	0	115,589	0	115,589	0
Total OPWC Loans		1,247,446	212,427	77,445	1,382,428	119,889
Compensated Absences Payable		564,892	30,599	106,441	489,050	121,047
Postclosure Costs Payable		2,334,545	0	120,083	2,214,462	123,242
Total Other Long-Term Obligations		24,271,213	707,457	2,331,224	22,647,446	1,959,355
Total Business-Type Activities		\$29,294,063	\$15,677,857	\$8,173,824	\$36,798,096	\$2,747,255

Bond Anticipation Notes

On June 26, 2009, the City issued bond anticipation notes, in the amount of \$2,330,000; \$700,000 to retire notes previously issued for constructing public infrastructure improvements related to constructing a portion of Wellness Drive, \$480,000 for constructing public infrastructure improvements related to constructing and extending Lakes Boulevard, \$400,000 for improving Barks Road between Delaware Avenue and State Route 529, and \$750,000 for acquiring and installing a comprehensive financial management software system. The notes had an interest rate of 2.75 percent and matured on June 23, 2010.

On October 15, 2009, the City issued \$2,830,000 in bond anticipation notes to retire notes previously issued; \$1,450,000 for roof repair and to purchase various equipment and a vehicle and \$1,380,000 for constructing, equipping, and furnishing a central garage building. The notes had an interest rate of 3.75 percent and matured on October 13, 2010.

On July 29, 2010, the City issued bond anticipation notes, in the amount of \$2,400,000 for improving the City's aquatic Center. As of December 31, 2010, the City had unspent proceeds of \$2,400,000. The notes had an interest rate of 1.25 percent and matured on July 21, 2011. The notes were paid from the Capital Improvements capital projects fund.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

On October 13, 2010, the City issued bond anticipation notes, in the amount of \$250,000 to retire notes previously issued for installing a new phone system in the City Building. As of December 31, 2010, the City had unspent proceeds of \$250,000. The notes had an interest rate of 2.25 percent and matured on July 21, 2011.

General Obligation Bonds

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

The net proceeds of the refunding bond issue, in the amount of \$6,077,000 were used to purchase U.S. government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payments of the refunded bonds. As a result, \$5,820,000 of the refunded bonds has been removed from the City's financial statements. At December 31, 2010 \$5,820,000 of this debt was still outstanding.

The refunding resulted in decreasing the aggregated debt service payments by \$510,164 over the next ten years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$432,393.

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

As of December 31, 2010, all of the proceeds had been spent and \$404,712 was spent on items which were not capitalized.

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

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

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

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

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

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

Capital Leases

Capital lease obligations will be paid from the fund that maintains custody of the related assets.

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

OWDA Loans

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

OWDA monies spent on items which were not capitalized were \$3,410,407 in the Sewer enterprise fund and \$912,664 in the Landfill enterprise funds.

OPWC Loans

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

OWDA loans are payable solely from the gross revenues of the Sewer, and Landfill enterprise funds and a portion of the OPWC loans are payable solely from the gross revenues of the Sewer and Storm Water enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the OWDA loans, for completed projects for which amortization schedules are available, are \$18,561,506 and \$1,853,838, respectively, and total principal to be paid on the OPWC loans is \$1,170,001. Principal and interest paid in the Sewer enterprise fund for the current year was \$1,682,590 and \$309,999, \$160,130 and \$44,943 in the Landfill enterprise fund, and \$261,980 in the Storm Water enterprise fund. Total net revenues for the Sewer, Landfill, and Storm Water enterprise funds were \$2,717,826, (\$63,211), and \$601,796 respectively.

The City's legal debt margin was \$32,473,718 at December 31, 2010.

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2010, were as follows:

Year	Governmental Activities			
	General Obligation Bonds		ODOT DRIP TIF	
	Principal	Interest	Principal	Interest
2011	\$272,100	\$169,041	\$76,124	\$19,726
2012	281,450	163,597	78,619	17,416
2013	285,850	158,293	81,195	15,031
2014	288,400	152,575	83,855	12,624
2015	294,700	146,410	86,602	10,082
2016-2020	1,602,450	611,465	277,207	14,147
2021-2025	1,004,150	377,840	0	0
2026-2030	1,240,250	158,197	0	0
	\$5,269,350	\$1,937,418	\$683,602	\$89,026

Year	OPWC Loan	Capital Loans	
	Principal	Principal	Interest
2011	\$6,410	\$76,919	\$10,525
2012	6,410	79,899	7,545
2013	6,410	82,996	4,449
2014	6,410	64,350	1,233
2015	6,410		
2016-2020	32,051	0	0
2020-2022	12,821	0	0
	\$76,922	\$304,164	\$23,752

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2010, from the enterprise funds were as follows:

Year	Business-Type Activities				
	General Obligation Bonds		OWDA Loans		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
2011	\$787,900	\$446,792	\$1,595,177	\$322,590	\$119,889
2012	803,550	431,033	1,628,412	289,355	119,889
2013	824,150	415,628	1,662,562	255,205	119,889
2014	836,600	398,545	1,697,660	220,107	119,888
2015	860,300	381,010	1,733,731	184,037	74,411
2016-2020	4,667,550	1,545,358	7,232,889	525,877	372,055
2021-2025	2,425,850	894,286	3,011,075	56,667	243,980
2026-2030	2,944,750	368,146	0	0	0
	\$14,150,650	\$4,880,798	\$18,561,506	\$1,853,838	\$1,170,001

NOTE 20 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for vehicles. The leases meet 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. Principal payments in 2010 were \$39,581 for governmental funds.

	Governmental Activities
Vehicles	\$149,000
Less Accumulated Depreciation	(29,799)
Total	\$119,201

NOTE 21 - LANDFILL POSTCLOSURE COSTS

State and federal laws and regulations require the City to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The City stopped accepting waste at its landfill in 1995. The \$2,214,462 reported as landfill postclosure costs at December 31, 2010, represents the estimated costs of maintenance and monitoring through 2025. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The December 31, 2010, liability increased from the prior year by \$120,083.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 21 - LANDFILL POSTCLOSURE COSTS (continued)

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

NOTE 22 - INTERFUND TRANSFERS

During 2010, the following transfers were made:

	General	Other Governmental	Sewer	Storm Water	Total
Governmental Activities					
Street Construction, Maintenance, and Repair	\$681,228	\$0	\$370,143	\$809,155	\$1,860,526
Bond Retirement	87,266	0	0	0	87,266
Other Governmental	840,780	332,000	208,994	255,437	1,637,211
Total Governmental Activities	1,609,274	332,000	579,137	1,064,592	3,585,003
Business - Type Activities					
Sewer	0	0	0	10,685	10,685
Total	\$1,609,274	\$332,000	\$579,137	\$1,075,277	\$3,595,688

The General Fund made transfers to the Street Construction, Maintenance, and Repair special revenue fund and other governmental funds to subsidize operations in those funds and to the Bond Retirement debt service fund to move receipts as debt payments came due.

Other governmental funds made transfers to other governmental funds to subsidize activities in other funds.

The Sewer enterprise fund made transfers to the Street Construction, Maintenance, and Repair special revenue fund to subsidize construction activities and to other governmental funds to move receipts as debt payments became due.

The Storm Water enterprise fund made transfers to the Street Construction, Maintenance, and Repair special revenue fund to subsidize construction activities and to other governmental funds to move receipts as debt payments became due.

The Storm Water enterprise fund transferred capital assets to the Sewer enterprise fund.

**CITY OF MARION
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 23 - INSURANCE POOLS

A. Ohio Municipal Joint Self-Insurance Pool

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

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

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

NOTE 24 - JOINTLY GOVERNED ORGANIZATION

The City participates in the Marion County General Health District, a jointly governed organization created according to the provisions of Ohio Revised Code Section 3709.07. The General Health District is governed by a Board of Health consisting of three members representing the City of Marion and appointed by the Mayor, three members representing Marion County and appointed by the District Advisory Council, and one member appointed by the Health District Licensing Council. During 2010, the City contributed \$227,786 toward the operations of the General Health District. Financial information can be obtained from the Marion County Auditor, 222 West Center Street, Marion, Ohio 43302.

NOTE 25 - CONTINGENT LIABILITIES

A. Litigation

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 25 - CONTINGENT LIABILITIES (continued)

B. Federal and State Grants

For the period January 1, 2010, to December 31, 2010, the City received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 26 - SUBSEQUENT EVENTS

On January 28, 2011, the City issued \$1,100,000 in bond anticipation notes for the construction of a new aquatic center. The notes have an interest rate of 2.375 percent and matured on July 21, 2011.

On July 21, 2011, the City issued \$9,400,000 in bond anticipation notes; \$3,500,000, to retire notes previously issued and for additional construction for a new aquatic center, \$3,130,400 for sewer improvements, \$2,619,600 for storm water improvements, and \$150,000 for landfill improvements. The bond anticipation notes have an interest rate of 1.5 percent and mature on July 19, 2012.

NOTE 27 - MANAGEMENT'S PLAN

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

The City will reduce appropriations \$500,000 to \$650,000 before year end 2011. In 2012, departments will be funded at the same percentage as their 2011 General Fund appropriation. The anticipated revenue for 2012 will also be allocated to departments by that percentage. Each department will determine how to distribute those resources within their 2012 budget.

**CITY OF MARION
MARION COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2010**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant - State's Program '09 Formula	A-F-09-142-1	14.228	\$ 30,883
Community Development Block Grant- State's Program '08 (CHIP)	A-C-08-142-1	14.228	20,832
Community Development Block Grant- State's Program '08 (Neighborhood Stabilization Program Grants)	A-Z-08-142-1	14.228	576,543
Total Community Development Block Grant State's Program			<u>628,258</u>
HOME Investment Partnership Program	A-C-08-142-2	14.239	141,907
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>770,165</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Direct:</i>			
ARRA - Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	2009-SB-B9-0366	16.580	15,438
ARRA- Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to State and Territories	2009-RA-A01-2067	16.803	73,513
Edward Byrne Memorial Justice Assistance Grant Program	2010-DJ-BX-0071	16.738	8,423
Bulletproof Vest Partnership 2008	1121-0235	16.607	1,500
<i>Passed Through the Ohio Office of Criminal Justice Services</i>			
ARRA-Violence Against Women Formula Grant	2009-AR-VA2-1260	16.588	137,026
Violence Against Women Formula Grant	2009-WF-VA2-8110	16.588	55,995
Total Violence Against Women Formula Grant			<u>193,021</u>
ARRA-Juvenile Intervention Specialist	2009-RA-B01-2344	16.803	40,859
Edward Byrne Memorial Justice Assistance Grant - School Resource Officer Grant	2009-JG-B01-6412	16.738	47,473
Edward Byrne Memorial Justice Assistance Grant - ARRA School Resource Officer Grant	2009-RA-A02-2273	16.803	46,626
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>426,853</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Direct:</i>			
Airport Improvement Program	AIP-3-39-0050-1808	20.106	14,650
Airport Improvement Program	AIP-3-39-0050-1909	20.106	98,850
Total Airport Improvement Program			<u>113,500</u>
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	PID # 83695	20.205	66,779
Rural Transit Grant Program - Operating Projects	RPT-4051-029-091	20.509	3,023
Rural Transit Grant Program - Inter-City Projects	RPT-4051-029-093	20.509	279
Rural Transit Grant Program - Capital Projects	RPT-0051-029-092	20.509	53,072
Rural Transit Grant Program - Operating Projects	RPT-4051-030-101	20.509	299,964
Rural Transit Grant Program - Inter-City Projects	RPT-4051-031-103	20.509	6,293
Rural Transit Grant Program - Capital Projects	RPT-4051-030-102	20.509	44,248
ARRA-Rural Transit Grant Program - Capital Projects	RPTS-0051-001-093	20.509	35,712
ARRA-Rural Transit Grant Program - Capital Projects	RPTS-0051-002-094	20.509	26,085
Total Rural Transit Grant Program			<u>468,676</u>
<i>Passed Through Ohio Department of Public Safety-The Governor's Highway Safety Office</i>			
Alcohol Impaired Driving Countermeasures Incentives Grant	2010-51-00-00-00305-00	20.601	37,749
Alcohol Impaired Driving Countermeasures Incentives Grant	2011-51-00-00-00543-00	20.601	8,701
Total Alcohol Impaired Driving Countermeasures Incentives Grant			<u>46,450</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>695,405</u>
U.S. DEPARTMENT OF ENERGY			
<i>Direct:</i>			
ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)	DE-EE0002208	81.128	69,812
TOTAL U.S. DEPARTMENT OF ENERGY			<u>69,812</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Ohio Department of Aging</i>			
Special Programs for the Aging-Title III, Part B Grants for Supportive Services and Senior Centers	N/A	93.044	48,813
Special Programs for the Aging-Title III, Part E Grants for Supportive Services and Senior Centers	N/A	93.044	4,000
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>52,813</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through Ohio Department of Public Safety-Emergency Management Agency</i>			
Homeland Security Grant Program	2008-GE-T8-0025	97.067	18,632
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>18,632</u>
Total Federal Awards Expenditures			<u>\$ 2,033,680</u>

The accompanying notes are an integral part of this schedule.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FORMULA GRANTS FOR OTHER THAN URBANIZED AREAS

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

NOTE C - MATCHING REQUIREMENTS

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

NOTE D – CORRECTION TO PRIOR YEARS FEDERAL AWARDS EXPENDITURES SCHEDULE

The City reported incorrect federal expenditures related to the Community Development Block Grant for the years 2007 through 2009 as follows:

Year	Grant	Pass-Through Entity Number	CFDA # Originally Reported	Correct CFDA #	Expenditures Originally Reported	Expenditures After Adjustments
2007	CDBG-State's Program '06 CHIP (CDBG)	A-C-06-142-1	14.228	14.228	\$ 17,200	\$ 35,449
2007	CDBG-State's Program '06 CHIP	A-C-06-142-1	14.228	N/A (State grant)	\$105,843	\$0
2007	CDGB-State's Program '06 CHIP (Home)	A-C-06-142-1	14.228	14.239	\$ 47,600	\$ 47,600
2007	CDBG-State's Program '05 Formula	A-F-06-142-1	14.228	N/A (Double booked)	\$ 44,256	\$0
2007	CDBG-State's Program '06 CHIP	A-C-06-142-1	14.228	N/A-(Double booked)	\$ 18,249	\$0
2008	CDBG-State's Program '06 Distress	A-F-06-142-1	14.228	14.228	\$214,851	\$239,173
2008	CDBG-State's Program '06 CHIP (CDBG)	A-C-06-142-1	14.228	14.228	\$ 67,477	\$ 92,206

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE D – CORRECTION TO PRIOR YEARS FEDERAL AWARDS EXPENDITURES SCHEDULE
(CONTINUED)**

2008	CDBG-State's Program '06 CHIP (HOME)	A-C-06-142-2	14.228	14.228	\$174,713	\$175,343
2008	CDBG-State's Program '06 CHIP (CDBG)	A-C-06-142-1	14.228	N/A (State grant)	\$ 11,998	\$0
2008	CDBG-State's Program '06 Downtown	A-T-06-142-2	14.228	14.228	\$190,354	\$199,196
2009	CDBG-State's Program '07 Formula	A-F-07-142-1	14.228	14.228	\$ 90,263	\$ 76,377
2009	CDBG-State's Program '08 Formula	A-F-08-142-1	14.228	14.228	\$131,158	\$145,902
2009	CDBG-State's Program '06 Downtown	A-T-06-142-1	14.228	14.228	\$ 37,664	\$ 54,425
2009	CDBG-State's Program '06 Distress	A-F-06-142-1	14.228	14.228	\$ 17,142	\$ 16,975
2009	CDBG-State's Program '08 CHIP	A-C-08-142-1	14.228	14.228	\$ 82,437	\$ 95,757
2009	CDBG-State's Program '08 NSP	A-Z-08-142-1	14.228	14.228	\$ 62,894	\$ 62,037
2009	Home Investment partnership Program	A-C-08-142-2	14.239	14.239	\$169,074	\$150,207

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marion, Marion County, Ohio (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 20, 2011, wherein we noted the City is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001 and 2010-010 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2010-006 through 2010-009 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

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Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2010-002 through 2010-005.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 20, 2011.

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

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



Dave Yost
Auditor of State

October 20, 2011



Dave Yost • Auditor of State

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

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

To the City Council:

Compliance

We have audited the compliance of the City of Marion, Marion County, Ohio (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City's major federal programs for the year ended December 31, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to 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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in findings 2010-014 through 2010-016 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Reporting and Allowable Costs/Cost Principles applicable to its Formula Grant for Other Than Urbanized Areas major federal program. Additionally, as described in findings 2010-017 through 2010-019 and 2010-021 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Reporting, Cash Management, Real Property Acquisition and Relocation Assistance, and Allowable Costs/Cost Principles applicable to its Community Development Block Grant major federal program. Compliance with these requirements is necessary, in our opinion, for the City to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Marion complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2010.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Findings 2010-011 and 2010-012.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-012, 2010-014 through 2010-019, and 2010-022 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-011, 2010-013, 2010-020 and 2010-021 to be significant deficiencies.

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

We also noted a matter involving federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated October 20, 2011.

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



Dave Yost
Auditor of State

October 20, 2011

CITY OF MARION
MARION COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010

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

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

FINDING NUMBER 2010-001

Financial Monitoring – Material Weakness

Monitoring is one of five vital interrelated internal control components and comprises regular management activities established to oversee whether management’s financial objectives are being achieved. System-generated reports serve as a useful means of accomplishing monitoring activities.

The City implemented an integrated windows-based accounting system in July 2009. Members of City Council, other elected officials, and department managers have been provided training on the new system. These individuals, responsible for financial monitoring and monitoring of federal grant financial activity, were provided with an accounting system login/password which provided online access to reports in the City’s accounting system.

The City’s practice is that the City Auditor’s Office sends those individuals responsible for financial and federal grant program monitoring an email notification when monthly data is finalized and the individuals are to access the online accounting system to obtain periodic system-generated reports, including budget and actual financial activity for monitoring purposes.

While this is an acceptable practice, it appears that individuals responsible for monitoring did not always access the needed reports to effectively perform monitoring activities, and other than employees in the City Auditor’s office, may not have a command of the accounting system sufficient to enable them to effectively carry out this responsibility.

Additionally the City did not have an effective control process established over the financial activity recorded on the City’s ledgers or reported on their financial report, including financial and budgetary statements, footnotes, required supplementary information as well as additional supplemental information reported. This was evident by examining various reclassification entries to revenues and expenditures that occurred during the City’s GAAP conversion process; if not for these reclassification entries there likely would have been material misstatements remaining in the financial statements.

We recommend the City develop policies and procedures to enhance its controls over recording of financial transactions and financial reporting to help ensure the information accurately reflects the activity of the City and thereby increases the reliability of the financial data throughout the year. We also recommend the City implement additional procedures over the completeness and accuracy of financial information reported within the City’s annual report.

As part of this process, while individuals responsible for financial monitoring have been provided training, we recommend the City consider coordinating additional training, either provided internally or by its accounting software provider, to enable those officials charged with monitoring to have an appropriate level of understanding of the accounting system to enable them to effectively carry out their monitoring responsibilities and to make informed decisions.

Officials Response:

The City of Marion has continued to train all persons in the City of Marion and will continue; however, the Auditor’s Office has implemented an accumulated transaction report and provided this report to all departments on a monthly basis. This report is provided via email as the goal is to be as paperless as possible to reduce costs.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

FINDING NUMBER 2010-002

Investments – Material Non-Compliance

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

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

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

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

- The City has purchased certificates of deposit totaling \$2,345,000 that have maturity dates up to 45 months, beyond the statutory one year limitation.
- While all of the City's deposits and investments were held in the City's name as of December 31, 2010 we noted that none of those deposits or investments were specifically held in the City Treasurer's name.

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

Officials Response:

All investments are listed in the City of Marion's name with the attention of the Treasurer. "The City of Marion is in full compliance with the Ohio Uniform Depository Act, O.R.C. 135.01 et. sec. Reference to O RC 135.13 is not applicable to the funds mentioned in the finding. O.R.C. 135.14 is the applicable section of the Uniform Depository Act which governs funds being held by the City of Marion that are deemed "interim" and are invested according to O.R.C. 135.14 (D). "

Auditor of State Conclusion:

The finding above cites Ohio Rev. Code Section 135.13, which limits interim deposits to investments with original maturities of not more than one year. The investments mentioned in the finding above are certificates of deposit purchased by the City with terms of up to 45 months; this is an allowable investment, however, the City did not designate these interim monies as "inactive", which would be required for purchase of investments with such maturities to be compliant.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

FINDING NUMBER 2010-003

Appropriations – Material Non-Compliance

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

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

At December 31, 2010, appropriations exceeded estimated resources as follows:

Fund	Estimated Resources	Appropriations	Variance
American Recovery & Reinvestment Act Fund	\$ 674,693	\$ 775,790	\$ (101,097)
Street Construction Maintenance & Repair Fund	2,409,662	3,127,910	(718,248)
Court Computerization Fund	12,682	19,500	(6,818)
Parks Fund	550,020	621,735	(71,715)
Community Corrections Fund	158,538	167,389	(8,851)
Neighborhood Stabilization Fund	989,972	1,058,229	(68,257)
Capital Improvement Fund	2,636,452	5,110,057	(2,473,605)
Sanitation Fund	2,194,010	2,427,227	(233,217)

Additionally, contrary to Ohio Rev. Code 5705.39, at December 31, 2010 the City had the following funds in which ending appropriations exceeded actual resources:

Fund	Actual Resources	Appropriations	Variance
General Fund	\$ 19,590,652	\$ 20,787,179	\$ (1,196,527)
Street Construction, Maintenance and Repair Fund	2,373,034	3,127,910	(754,876)
Sanitation Fund	1,949,370	2,427,227	(477,857)
Court Computerization Fund	12,682	19,500	(6,818)
Parks Fund	543,181	621,735	(78,554)
Capital Improvement Fund	3,368,495	5,110,057	(1,741,562)
State Highway Fund	182,907	235,000	(52,093)
CHIP Grant Fund	218,303	292,300	(73,997)
Neighborhood Stabilization Fund	534,414	1,058,229	(523,815)
CDBG Formula Grant	56,612	196,743	(140,131)

CITY OF MARION
MARION COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)

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

FINDING NUMBER 2010-003 (Continued)

Appropriations – Material Non-Compliance (Continued)

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

Officials Response:

The City of Marion has implemented a new procedure to cure reporting of appropriations for the Budget Commission Report. This is now done at least quarterly if not monthly if needed. The City of Marion will also review the year end to ensure that the report is updated at year end.

FINDING NUMBER 2010-004

**Budgetary Expenditures Exceed Appropriations & Posting to Accounting System
– Material Non-Compliance**

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

Additionally, under Ohio Rev. Code Section 5705.42, the City's fiscal officer is directed to record the appropriation amount in the accounting system. The fiscal officer should also include the appropriated amounts on the amended certificate; this enables those charged with governance as well as department managers and others to properly monitor budgeted and actual revenues and expenditures.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

FINDING NUMBER 2010-004 (Continued)

**Budgetary Expenditures Exceed Appropriations & Posting to Accounting System
– Material Non-Compliance (Continued)**

At December 31, 2010, we noted the following differences between the budgeted revenues and the corresponding amounts contained within the accounting system:

Fund	Actual Estimated Revenues	Estimated Revenues Per The Accounting System	Variance
Street Construction, Maintenance and Repair Fund	\$ 2,137,381	\$ 2,665,900	\$ 528,519
Sewer Fund	15,127,702	10,696,720	(4,430,982)
Sanitation Fund	2,168,559	2,379,000	210,441
Stromwater Fund	10,704,090	7,975,421	(2,728,669)
Bond Retirement Fund	865,540	144,875	(720,665)
American Reinvestment and Recovery Act Fund	659,209	775,621	116,412
Capital Improvement Fund	1,855,000	3,066,095	1,211,095
Community Distress Fund	-	1,530,342	1,530,342
CHIP Grant Fund	865,914	262,300	(603,614)
DRIP Infrastructure Fund	740	1,066,000	1,065,260

At December 31, 2010, we noted the following differences between the budgeted appropriations and the corresponding amounts contained within the accounting system:

Fund	Actual Appropriations	Appropriations Per The Accounting System	Variance
General Fund	\$ 20,787,179	\$ 20,617,280	\$ (169,899)
Street Construction, Maintenance and Repair Fund	3,127,910	2,984,167	(143,743)
Sewer Fund	18,025,553	17,136,490	(889,063)
Sanitation Fund	2,427,227	2,321,317	(105,910)
Stormwater Fund	13,103,437	12,393,187	(710,250)
American Reinvestment and Recovery Act Fund	775,789	753,091	(22,698)
Senior Citizens Fund	153,535	128,925	(24,610)
Capital Improvement Fund	5,110,057	5,057,450	(52,607)
Community Distress Fund	1,679	88,339	86,660
CHIP Grant Fund	292,300	262,229	(30,071)

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

FINDING NUMBER 2010-004 (Continued)

**Budgetary Expenditures Exceed Appropriations & Accounting System
– Material Non-Compliance (Continued)**

Additionally, as disclosed in note 4 (b) of the notes to the financial statements and contrary to Ohio Rev. Code 5705.41(B) budgetary expenditures (cash disbursements plus outstanding encumbrances) exceeded appropriations at the legal level of control (object level); of those, the significant variances were as follows:

Fund	Function	Object	Appropriations	Budgetary Expenditures	Excess
Debt Service	Debt Service	Principal Retirement	\$ 50,000	\$ 3,715,250	\$ (3,665,250)
Debt Service	Debt Service	Escrow Agent	0	790,010	(790,010)
	Sanitary Sewer				
Sewer Fund	Improvement	Capital Outlay	4,678,315	6,266,544	(1,588,229)
		Pmt. To Refunded			
Sewer Fund	Debt Service	Bond Escrow Agent	0	1,883,870	(1,883,870)
Stormwater	Strom Sewer	Capital Outlay	410,091	1,092,841	(682,750)
		Pmt. To Refunded			
Stormwater	Debt Service	Bond Escrow Agent	0	3,403,120	(3,403,120)

Contributing to this condition was the deficiency in financial monitoring described in Finding 2010-001.

We recommend the City Auditor’s office ensure the timeliness and accuracy of the posting of budgetary amounts to the accounting system; since individuals responsible for monitoring have online access the Auditor’s office should ensure updates are posted within one week of adoption by City Council to ensure the accounting system contains reliable data. Additionally the City Auditor and the City Council should monitor budget versus actual reports throughout the year to ensure actual revenues approximate approved budgeted amounts and actual expenditures do not exceed appropriations at the legal level of control.

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

Officials Response:

The City of Marion has implemented a new procedure to cure reporting of appropriations for the Budget Commission Report. This is now done at least quarterly if not monthly if needed. The City of Marion will also review the year end to ensure that the report is updated at year end.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

FINDING NUMBER 2010-005

Negative Fund Balances – Material Non-Compliance

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

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

We noted the following funds which had negative cash balances at December 31, 2010:

	<u>Fund Balance</u>
Street Construction	
Maintenance & Repair Fund	\$ (9,597)
Violence Against Women Fund	(11,689)
School Resource Officer Fund	(22,929)
Homeland Security Grant Fund	(18,632)
Neighborhood Stabilization Grant Fund	(38,372)
Marion Area Transit Fund	(22,293)
Bond Retirement Fund	(385,823)
DRIP Infrastructure Fund	(3,128)
Sanitation Fund	(113,453)

Additionally, we noted the City paid \$89,411 of Sewer Fund debt service payments from the Landfill Fund; this transaction was corrected on the City’s financial statements but not in the accounting records.

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

Officials Response:

The City of Marion receives many grants throughout the year and the City of Marion at the end of 2010 had deferred revenue which was not received by year end to offset the expenditures of the grant due to the reimbursement requirements. All monies are expended for the purposes for which they were established, however, the City of Marion will consider using advances of funds to offset expenses until such time as the grant funds are received.

The City of Marion agrees there was an error in the Sewer Fund for the Landfill which has been corrected in 2011.

CITY OF MARION
MARION COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)

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

FINDING NUMBER 2010-006

Purchasing Authorization Controls – Significant Deficiency

The City has implemented various internal control procedures for the authorization of expenditures; department heads are responsible for the authorization of expenditures and the City Auditor is responsible for processing the invoices and issuing payment.

We examined a sample of paid voucher packets and noted the following regarding these purchasing authorization controls:

- Twenty-two percent of the purchase orders we examined were not approved by the department head;
- Seven percent of the invoices we examined did not contain indication that the invoices were okay to pay;

Failure to obtain the approval of the purchase order by the department head and indication that invoices are okay to pay could lead to unauthorized or unallowable purchases being made without the timely detection of management. We recommend the City follow the established internal control procedures over disbursements.

Officials Response:

The City of Marion has had instances of purchase not receiving the electronic approval in the system, however, these approvals were either verbal or with some other communication in writing from an authorized person. The City of Marion has had a few invoices paid without the electronic approvals but contends that the approval was to ensure the invoices were not late and no late fees were assessed.

FINDING NUMBER 2010-007

Fare Box Revenue – Transit Department – Significant Deficiency

See Federal Finding 2010-013 in Section 3 below. *Government Auditing Standards* also requires us to report this finding in this section of this Schedule.

FINDING NUMBER 2010-008

Expenditure Authorization Controls – Transit Department – Significant Deficiency

See Federal Finding 2010-016 in Section 3 below. *Government Auditing Standards* also requires us to report this finding in this section of this Schedule.

FINDING NUMBER 2010-009

Expenditure Authorization Controls – Community Development Block Grants – Significant Deficiency

See Federal Finding 2010-020 in Section 3 below. *Government Auditing Standards* also requires us to report this finding in this section of this Schedule.

FINDING NUMBER 2010-010

Reporting – Community Development Block Grants – Material Weakness

See Federal Finding 2010-017 in Section 3 below. *Government Auditing Standards* also requires us to report this finding in this section of this Schedule.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Filing of Single Audit – Material Non-Compliance/Significant Deficiency

Finding Number	2010-011
CFDA Title and Number	14.228 – Community Development Block Grant 20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	A-F-07-142-1/2007 A-F-08-142-1/2008 A-F-09-142-1/2009 A-T-06-142-1/2006 A-F-06-142-1/2006 A-C-08-142-1/2008 A-Z-08-142-1/2008 RPT-4051-029-091/2009 RPT-4051-029-093/2009 RPT-0051-027-082/2009 RPT-4051-027-081/2009 RPT-4051-027-083/2009 RPT-0051-001-093/2009
Federal Agency	United States Department of Housing & Urban Development United States Department of Transportation
Pass-Through Agency	Ohio Dept of Development & Ohio Dept of Transportation

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

The City expended \$1,571,826 in federal awards in 2009. The 2009 Single Audit report filing was not completed until April 18, 2011, which did not meet the required filing deadline denoted above. This condition affected all federal programs.

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

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

Officials' Response and Corrective Action Plan:

The City of Marion understands that the Single Audit is due nine months after the end of the fiscal year, however, extensions were provided due to the 2009 audit was not complete until April of 2011 by the Auditor of State's Office. However, the City of Marion has worked diligently to shorten the time needed for the audit from previous years of anywhere from 15 months to less than 12. We will continue to work towards a CAFR and decreasing the audit time necessary.

Anticipated Completion Date: November 14, 2011
Responsible Contact: Kelly Carr, City Auditor

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Federal Awards Expenditure Schedule – Material Non-Compliance/Material Weakness

Finding Number	2010-012
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, (the Circular), sets forth standards for the audit of non-Federal entities expending Federal awards. Section .300(a) of the Circular states the auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

Section .310(b) states, in part, the auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements.

At a minimum, the schedule shall:

1. List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs.
2. For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
3. Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
4. Include notes that describe the significant accounting policies used in preparing the schedule.
5. To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.
6. Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

Section .320(a) of the Circular also requires the audit to be completed and the reporting package filed within the earlier of 30 days after the receipt of the auditor's report(s), or nine months after the end of the audit period, (for the City this is September 30th) unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

Federal Awards Expenditure Schedule – Material Non-Compliance/Material Weakness (Continued)

Finding Number	2010-012
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Upon testing the Community Development Block Grant program and discussion with the grantor agency, we noted errors in the City's 2007, 2008, and 2009 federal awards expenditures schedule which required the following modifications:

Year	Pass-Through Entity Number	CFDA # Originally Reported	Correct CFDA #	Expenditures Originally Reported	Expenditures After Adjustments
2007	A-C-06-142-1	14.228	14.228	\$ 17,200	\$ 35,449
2007	A-C-06-142-1	14.228	N/A	105,843	-
2007	A-C-06-142-2	14.228	14.239	47,600	47,600
2007	A-F-06-142-1	14.228	N/A ¹	44,256	-
2007	A-C-06-142-1	14.228	N/A ¹	18,249	-
2008	A-F-06-142-1	14.228	14.228	214,851	239,173
2008	A-C-06-142-1	14.228	14.228	67,477	92,206
2008	A-C-06-142-2	14.228	14.239	174,713	175,343
2008	A-C-06-142-1	14.228	N/A ¹	11,998	-
2008	A-T-06-142-2	14.228	14.228	190,354	199,196
2009	A-F-07-142-1	14.228	14.228	90,263	76,377
2009	A-F-08-142-1	14.228	14.228	131,158	145,902
2009	A-T-06-142-1	14.228	14.228	37,664	54,425
2009	A-F-06-142-1	14.228	14.228	17,142	16,975
2009	A-C-08-142-1	14.228	14.228	82,437	95,757
2009	A-Z-08-142-1	14.228	14.228	62,894	62,037

¹ Amounts were state grants and should not have been reported on the City's Schedule of Federal Awards Expenditures.

Similar errors were also noted for the City's Home Investment Partnership Program, a non-major program.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2010-012
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Failure to identify federal awards by accounting for them separately, accurately prepare a federal awards expenditures schedule, and timely file with the Federal Audit Clearinghouse may compromise the City's ability to obtain federal awards in the future.

The City has made the above adjustments to the federal awards and expenditures schedule and disclosed these modifications in the notes to the federal awards and expenditures schedule.

Officials' Response and Corrective Action Plan:

As mentioned above, the impact of the yearly errors on the Federal schedule were not total revealed until the grants ended and could be looked at as total grants, rather than snap shots. The federal schedules will be corrected and similarly any errors in reporting actual expenditures will be corrected by sending amended Final Reports to the Department of Development for the grants involved.

CHIP housing grants can be funded by CDBG, HOME and / or Ohio Housing Trust Fund. Prior Single Audits did not denote that the 2006 CHIP was funded by all three funding sources, two of which are federal, but do not have the same CFDA number. The City accounting software groups the entire CHIP grant into one grant fund, but divides it by grant "activity" which is delineated by funding source. The funds are currently traceable by federal source. However, prior audits did not reflect that information.

To complicate matters, housing projects and vendors are often paid by one or more funding sources per bill. Because of required grant procedural changes in recent years eliminating what used to be called "implementation" as its own activity, certain housing activities such as implementation of the grant and inspection services etc, are funded by the "activity" such as Emergency Home repair/Private Owner Rehabilitation or Rental Rehab. This may mean that a housing inspection firm who properly submits monthly bills by house address inspected may submit bills that are ultimately paid by "4 Activities, which are funded by 3 funding sources (CDBG/HOME/OHTF), of which only 2 or 3 are federal in nature.) If the Auditor of State wants the HOME funds to be in a separate fund, my only caution is that it needs to be done in such a way that it is easy to see it is still related to the other funding sources of that particular CHIP grant. This was not as cumbersome an accounting issue in prior grant years when the Dept of Development identified Implementation as its own activity funded by only one funding source. This is a contributing factor of why the FY 2006- to present single audits have become much more complicated than they have been in the past.

Anticipated Completion Date: November 14, 2011
Responsible Contact: Kelly Carr, City Auditor and
Marion County Regional Planning Commission

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Fare Box Revenue – Transit Department – Significant Deficiency

Finding Number	2010-013
CFDA Title and Number	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

The City operates a transit service for its residents. Once each shift is complete, bus drivers' fare boxes and manifests, containing a listing of all passengers, are turned in to the Transit Department. The cash and tickets in the fare boxes are counted by a dispatcher and a deposit slip is completed; the dispatcher compares the manifest and the cash and tickets in the fare box. The manifests are maintained at the Transit Department.

However there are no procedures to ensure the completeness of receipts in each fare box. The dispatcher does not document a reconciliation of the cash and tickets to the manifest. Ideally, the City should be observing the following procedures:

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

The above procedures could be performed in the presence of each bus driver, if practical.

We believe implementation of the above procedures would strengthen Transit Department internal controls and ensure the completeness of transit revenue.

Officials' Response and Corrective Action Plan:

In March 2011 the City Transit Department implemented new procedures consisting of the following. Each day, each driver is required to change their farebox. At that time, they are to turn in their driver manifest sheets so they can be reconciled to the farebox. This process will occur on a staggered basis in the afternoon. In the event that a driver and/or bus has completed its day, or if the bus is placed out of service due to mechanical issues the farebox is to be changed at that time.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

Fare Box Revenue – Transit Department – Significant Deficiency (Continued)

Finding Number	2010-013
CFDA Title and Number	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

Officials' Response and Corrective Action Plan (Continued):

When the counting the farebox, two employees will be present to verify the cash, tokens and tickets. These two will initial the sheet. The manifest is to be counted and those totals along with the farebox totals will be listed on a Reconciliation Form. The reconciliation is to list any overage or shortage. The Transit Administrator will monitor and initial the reconciliation sheet.

Anticipated Completion Date: March 30, 2011
Responsible Contact: Jeff Marsh, Transit Director

Quarterly Reporting – Rural Transit Program – Noncompliance and Material Weakness

Finding Number	2010-014
CFDA Title and Number	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

The City receives funding from the Ohio Department of Transportation (ODOT) under the Rural Transit Program. ODOT asks its grantees to submit quarterly reporting following the guidance in the National Transit Database Manual published by the National Transit Administration (http://www.ntdprogram.gov/ntdprogram/pubs/RuralRM/2010/pdf/2010_Rural_Reporting_Manual.pdf).

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Quarterly Reporting – Rural Transit Program – Noncompliance and Material Weakness (Continued)

Finding Number	2010-014
CFDA Title and Number	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

With regard to financial reporting, page 30 of this Manual explains financial reporting must be on the accrual basis, which provides a more accurate representation of revenues and expenditures than the cash basis; the accrual basis recognizes revenues when earned (rather than received) and expenditures when incurred (rather than when actually paid in cash).

Contrary to this, during 2010 the City prepared its quarterly invoice reports to ODOT using cash basis revenues and expenditures. Additionally, we noted inaccuracies between the expenditures in the City's accounting records and those in the quarterly reports submitted to ODOT; the effect of this was that the City reported an estimated \$67,206 less of expenditures than what was actually incurred on the accrual basis and transferred \$19,187 more in cash from the General Fund than what would have otherwise been required to meet its local matching obligation under the grant agreement.

We recommend the Transit Department follow the request of ODOT and submit quarterly financial data on the accrual basis of accounting, and ensure the accuracy of the financial data prior to submission.

Officials' Response and Corrective Action Plan:

The City of Marion recognizes the Ohio Department of Transportation on page 30 of the manual asks for the accrual based accounting procedures to be implemented on the quarterly invoices. However, with the changing of staff and with the issue of proof of expenditures, the City of Marion could not effectively file accurate reports on the accrual basis and provide the proof of expenditure, which is required by ODOT, without reporting on a cash basis. The city is currently working with ODOT to resolve this finding. Any overpayment or questioned costs has been and is currently being reviewed and modified from future funding.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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**Allowable Costs / Cost Principles – Rural Transit Grant
– Questioned Costs and Material Weakness**

Finding Number	2010-015
CFDA Title and Number	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

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

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

The City’s central garage performs maintenance on its buses and allocates actual costs for replacement parts to the grant; however the City also charges a \$1,500 monthly storage fee for parking the buses and bills labor and overhead at a flat \$75 per hour, similar to other City departments.

The \$75 per hour flat fee was calculated in a cost allocation plan developed by the City but it was not approved by the grantor, the Ohio Department of Transportation (ODOT), which has suggested a rate of \$58.67. Also, the cost allocation plan includes allocation of certain unallowable expenditures such as debt service payments for debt issued to construct the central garage, unrelated to the Rural Transit Grant. without a formal approved cost allocation plan which adheres to the limitations in 2 C.F.R. Part 225, Appendix A Section C3, a portion of the costs to operate the central garage which are not allocable to Rural Transit federal program activities are being charged to the grant.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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**Allowable Costs / Cost Principles – Rural Transit Grant
– Questioned Costs and Material Weakness (Continued)**

Finding Number	2010-015
CFDA Title and Number	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

Therefore \$41,892 of the City’s total Rural Transit Program grant expenditures of \$468,676 are questioned.

We recommend the City obtain or develop a formal cost allocation plan to substantiate the central garage operating costs being charged to the Rural Transit federal grant; this will ensure only those costs allocable to grant activities would be charged to the grant.

Officials’ Response and Corrective Action Plan:

The City of Marion has had extensive meetings, conferences, trainings and discussions regarding the Central Garage Cost Allocation Plan. Director Jay Shoup has implemented a new cost allocation plan to address these concerns and during the discussions with the Audit Team of ODOT, they are satisfied with the new cost allocation plan.

**CITY OF MARION
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

Expenditure Authorization Controls – Rural Transit Program – Material Non-Compliance/Questioned Costs and Material Weakness

Finding Number	2010-016
CFDA Title and Number	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

2 C.F.R. Part 225, Appendix A (also known as OMB Circular A-87) Attachment A, paragraph C describes the basic guidelines affecting allowability of direct and indirect costs. To be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):

- (a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)
- (b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)
- (c) Be authorized or not prohibited under State or local laws or regulations.
- (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- (f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.
- (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
- (i) Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)
- (j) Be adequately documented.

Furthermore, OMB Circular A-87, Appendix B paragraph 8(h), paragraphs (1) through (4) require the following standards regarding time distribution for salaries and wages, in addition to the standards for payroll documentation:

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

**CITY OF MARION
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

Expenditure Authorization Controls – Rural Transit Program – Material Non-Compliance/Questioned Costs and Material Weakness (Continued)

Finding Number	2010-016
CFDA Title and Number	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

Paragraph (h)(5) explains that personnel activity reports or equivalent documentation must meet the following standards:

- a) They must reflect an after-the-fact distribution of the actual activity of each employee;
- b) They must account for the total activity for which each employee is compensated;
- c) They must be prepared at least monthly and must coincide with one or more pay periods; and
- d) They must be signed by the employee.

The City has implemented various internal control procedures for the authorization of expenditures; department heads are responsible for the authorization of expenditures and the City Auditor is responsible for processing the invoices and payroll and issuing payment.

**CITY OF MARION
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

Expenditure Authorization Controls – Rural Transit Program – Material Non-Compliance/Questioned Costs and Material Weakness (Continued)

Finding Number	2010-016
CFDA Title and Number	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Award Number / Year	RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

We noted the following while testing various purchasing transactions:

- Eighty percent of expenditures where the purchase order was not reviewed and approved by the department supervisor and/or purchasing agent;
- None of the purchase orders were approved by the Service Director;
- Twenty percent of the invoices did not contain indication that the invoice was "okay to pay";
- Forty percent of the invoices were not approved by the Service Director;

We noted the following while testing various payroll transactions:

- None of the timecards contained the initials or signature of *both* the employee and the supervisor;
- Seven percent of the summary sheets did not have approval of the supervisor;
- Three percent of the summary sheets did not agree to the Payment Inquiry Report;
- Twenty percent of the leave forms were not signed by the employee taking the leave;
- Twenty-three percent of leave forms were not signed by the department manager;

Therefore federal expenditures of \$309,559 are questioned.

Failure to follow internal control procedures for the authorization of expenditures established by the City may result in payment for goods or services that were not received employee time that is not accurate; this could also result in misclassification of expenditures on the financial statements. We recommend the City follow the established internal control procedures over disbursements.

Officials' Response and Corrective Action Plan:

The City of Marion is currently reviewing the procedures in place and currently updating the policy to address the issue. The City of Marion contends that the amount paid to employees is not in question and that it is the procedure for which the timecards are presented. The City of Marion does have the appropriate reviews in place to ensure no employee is overpaid, no bill is overpaid and the City of Marion will update the procedure to address the issue.

**CITY OF MARION
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

Finding Number	2010-017
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

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

In, 2010 the City received and expended Small Cities Community Development Block Grant (CDBG) Program grant monies through a grant from the Ohio Department of Development. The CDBG grants are administered by the Marion County Regional Planning Commission (MCRPC) and the City Auditor is responsible for accounting for the fiscal activity for the grant.

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

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

- We noted several errors in reporting the of the federal awards and expenditures schedule as disclosed in Finding # 2010-012.
- The City is required to submit periodic status reports to the Ohio Department of Development (ODOD), the grantor agency to provide a snapshot of each grant’s progress; we noted variances on all status reports submitted during 2010, ranging in amounts between \$859 and \$108,785.
- Due to inaccuracies in the status reports and final performance reports, we noted a balance of grant funds owed to ODOD of \$32,521 that has not been remitted as of September 27, 2011.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

Finding Number	2010-017
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

- We noted approximately \$21,000 in grant revenues that was recorded in the CHIP Fund that should have been accounted for in the Community correction fund.

Failure to establish separate funds or cost centers, perform timely reconciliations, and accurately report grant activity could jeopardize future CDBG grant funding for the City. We recommend the City segregate the financial activity of each of the CDBG grants by establishing separate funds or cost centers for each individual grant. We also recommend the City and MCRPC perform timely reconciliations of each grant's activity to the City's accounting ledgers, and perform accurate reporting. This will facilitate proper monitoring of each grant's activity and to help ensure compliance with grant reporting requirements.

Officials' Response and Corrective Action Plan:

Regional Planning and the City Auditor's office will reconcile the grants to have more accuracy in the status and final reports for the CDBG grants and Revolving Loan Funds. During the 2010 Single Audit, the RPC staff postponed closing out the CHIP 08 so that all of the discrepancies could be identified and remedied.

Anticipated Completion Date: November 14, 2011
Responsible Contact: Kelly Carr, City Auditor and
Marion County Regional Planning Commission

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

Finding Number	2010-018
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

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

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

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

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

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

Finding Number	2010-018
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Grant	Drawdown Date	Amount	Balance on Hand After 15 Days	# Days Until Balance Reduced to Less Than \$5,000
A-Z-08-142-1	5/5/2010	\$ 89,000	\$ 36,352	222
A-Z-08-142-1	6/21/2010	158,100	154,845	175
A-Z-08-142-1	8/13/2010	26,000	217,931	122
A-Z-08-142-1	8/20/2010	64,008	217,931	115
A-C-08-142-1	4/8/2010	30,000	31,057	45
A-C-08-142-1	7/23/2010	16,000	6,119	30
A-C-08-142-1	10/8/2010	60,000	47,557	75 days in 2010; unspent at 12/31/10
A-C-08-142-1	12/27/2010	19,936	25,941	4 days in 2010; unspent at 12/31/10
A-F-09-142-1	5/25/2010	3,000	5,555	220 days in 2010 draw- down unspent at 12/31/10
A-F-09-142-1	6/15/2010	42,000	39,557	199 days in 2010 draw- down unspent at 12/31/10
A-F-09-142-1	7/30/2010	8,000	47,557	154 days in 2010 draw- down unspent at 12/31/10

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

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

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

Finding Number	2010-018
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

The City deposited each grant receipt into an interest-bearing account. Although certain grant receipts were held for a significant period of time, the City did not perform any calculation of interest earned by the grant money, nor remit any interest earnings to the OHCP. We impute the estimated interest earning on the excess cash balances above is \$3,942 based on the 1.00% average 2010 U.S. Treasury Current Value of Funds Rate.

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

Officials’ Response and Corrective Action Plan:

The NSP grant A-Z-08-142-1 had a situation where the City of Marion had to not allow its demolition contractors to proceed until a newer interpretation of Asbestos ruling could be addressed. This meant that all work had to be stopped until Asbestos inspections could be made on dozens of demolition properties and bids for asbestos abatement could be incorporated into the projects involved. The city was under threat of penalty from the Ohio Dept of Health if it proceeded with the projects without proper compliance. Therefore we had no choice other than to hold onto the funds until such a time that projects could be done in proper compliance. The City of Marion was not the only grantee to be affected by this interpretation. Evelyn Warr-Cummings and Tom Robbins attended Ohio EPA session in Toledo on the subject which ultimately resulted in the Ohio Dept of Development and Ohio EPA issuing memos to all grantees on the subject.

The City of Marion tries to draw down grants funds only as needed. The draw down process takes 4-6 weeks and during the end of the State Fiscal year, in the summer, it is recommended that grantees draw additional funds to work through the state’s “fiscal shut down” period. When possible the City creates an “advance” fund. However, the total amount of grant funds is far beyond what the City of Marion can expect to advance. The minimum amount to be put on a drawdown form has always been \$5,000. It is very difficult with the number of grants and total amount of funds, to keep the balance below 5,000 at any one given time. We will try to order grant funds only as needed and not keep an excessive amount on hand and abide by the 15 day rule, without creating a situation where vendors are not paid in a timely manner.

Anticipated Completion Date: November 14, 2011
Responsible Contact: Kelly Carr, City Auditor and
Marion County Regional Planning Commission

**CITY OF MARION
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Property Appraisals – Material Non-Compliance/Material Weakness – Community Development Block Grant/Neighborhood Stabilization Program

Finding Number	2010-019
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

The U.S. Department of Housing and Urban Development (HUD) *NSP Policy Alert Guidance on NSP Appraisals – Voluntary Acquisitions*, dated November 5, 2009 outlines five requirements NSP grantees should adhere to when acquiring real estate; following are two of those relevant requirements:

1. Neighborhood Stabilization Program (NSP) funds are to be used to acquire a foreclosed upon home or residential property; the grantee must ensure that the purchase price includes a discount from the value established by an appraisal that meets the following requirements:
 - a. The appraisal must have been completed within 60 days of the offer made for the property (we have advised that an initial offer can be made, subject to the completion of the appraisal within 60 days of a final offer).
 - b. The appraisal must meet the U.R.A. definition of an appraisal and the five following requirements:
 - i. An adequate description of the physical characteristics of the property being appraised.
 - ii. All relevant and reliable approaches to value.
 - iii. A description of comparable sales.
 - iv. A statement of the value of the real property to be acquired.
 - v. The effective date of valuation, date of appraisal, signature, and certification of the appraiser.

2. The NSP grantee has a legitimate role in contributing to the appraisal process, especially in developing the scope of work and defining the appraisal problem. The scope of work and development of an appraisal under these requirements depends on the complexity of the appraisal.

We noted the City expended NSP grant money totaling \$40,038 to acquire a property on Uncapher Avenue. However the City did not have an appraisal performed for the purchase of that property; an appraisal was performed for a commercial lender but the City did not have a legitimate active role in contributing to the appraisal process and the scope of the work performed.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Property Appraisals – Material Weakness and Non-Compliance – Community Development Block Grant/Neighborhood Stabilization Program (Continued)

Finding Number	2010-019
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Failure to have timely appraisals performed prior to a purchase may result in overpaying for a property based on current market conditions within the City. Because of the conditions described herein \$40,038 of the City's total Community Development Block Grant (CDBG) expenditures of \$628,258 are questioned.

We recommend the City review *HUD NSP Policy Alert Guidance on NSP Appraisals – Voluntary Acquisition*, dated November 5, 2009 and implement controls to ensure compliance on any future real property acquisitions through the NSP program.

Officials' Response and Corrective Action Plan:

We have NSP regulations and have provided them to the Auditor of State that indicates that appraisals are not needed for foreclosed properties valued under \$25,000. Regional Planning and the NSP Committee consisting of City, County and Village representatives, including a realtor and the County Auditor had information on the value of the properties in question including the prior sale prices and Auditor's values, both that far exceeded the grant purchase price. All of the properties involved were vacant, bank-owned or even HUD-owned foreclosed properties. They were not purchased from private individuals or developers trying to overcharge the grant.

Anticipated Completion Date: November 14, 2011
Responsible Contact: Kelly Carr, City Auditor and
Marion County Regional Planning Commission

**CITY OF MARION
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Expenditure Authorization – Significant Deficiency – Community Development Block Grant

Finding Number	2010-020
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

The City established internal control procedures over the purchase of goods or services whereby the department head reviews and approves the purchase order and invoice and indicates this approval in the City's accounting software.

We noted in thirty percent of the purchase orders tested within the Community Development Block Grant (CDBG) program were not approved by the Department Head. Further we noted in four percent invoices of the invoices tested within the CDBG program were not approved by the Department Head.

Failure to obtain the approval of the purchase of goods or services could lead to unauthorized or unallowable purchases being made without the timely detection of management.

We recommend the City adhere to established internal control procedures over the approval of purchase of goods or services and not to process payments or purchase orders until approval is received from the respective Department Head.

Officials' Response and Corrective Action Plan:

Marion Regional Planning did not get immediate access to the new computer software because it is physically located in another building. When the New World system was new, for the first several months we had to take paper copies of purchase orders/vouchers/ invoices etc over to City Hall and have the City Auditor Staff type the requests directly into the computer software. RPC presently have one computer that is compatible with New World System and our staff discusses the invoices & purchase orders in our office and has our Office Manager input them into the computer software. If appropriation amounts do not match the grant activity amounts, the City Auditor's office may need to override the computer system to process the grant purchase orders or vouchers etc.

Anticipated Completion Date: November 14, 2011
Responsible Contact: Kelly Carr, City Auditor and
Marion County Regional Planning Commission

**CITY OF MARION
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Allowable Costs/Cost Principles & Reporting – Material Non-Compliance/Significant Deficiency – Community Development Block Grant

Finding Number	2010-021
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

24 C.F.R. 85.23 (a) (b) states where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated and balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period and a grantee must liquidate all obligation incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulations) to coincide with the submission of the annual Financial Status Report.

Attachment C of the grant agreement requires the City to submit a status report beginning six months after the effective date of this agreement; it further states that the City must submit a final performance report at the conclusion of the program.

The City completed the final performance report for the 2008 Community Development Block Grant (CHIP) and submitted the report to the Ohio Department of Development (ODOD). However, the total expenditures reported on the final performance report did not agree to the City's accounting system. The actual amount of total expenditures for the CDBG-CHIP and Home was \$412,554, but the amount submitted on the final performance report was \$425,919.

Since the excess expenditures reported of \$13,365 are the result of not following 24 C.F.R. 85.23, they would not be allowable under 2 C.F.R. 225 Appendix (C) (1) (d) and (e) which states factors affecting allowability of costs. To be allowable under Federal awards, in general costs must conform to Federal laws, meet terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost item and be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the City.

We recommend the City ensure amounts reported on the final performance report agree to the City's financial ledgers from which the financial statements are prepared.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Allowable Costs/Cost Principles & Reporting – Material Non-Compliance/Significant Deficiency – Community Development Block Grant (Continued)

Finding Number	2010-021
CFDA Title and Number	14.228 – Community Development Block Grant
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008
Federal Agency	United States Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Officials’ Response and Corrective Action Plan:

Regional Planning has been in contact with the Office of Housing & Community Partnerships (now renamed OCD Office of Community Development) throughout this 2010 Single Audit Process and informed them that it impacted the CHIP 08. Based upon the final financial data, Regional Planning will amend the final grant reports and will now re-schedule the monitoring visit to close out this grant properly. When speaking to our Field representative Bill Bope, it is thought that he monitoring may occur in December, 2011.

Anticipated Completion Date: November 14, 2011
Responsible Contact: Kelly Carr, City Auditor and
Marion County Regional Planning Commission

**CITY OF MARION
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Financial Monitoring – Material Weakness

Finding Number	2010-022
CFDA Title and Number	14.228 – Community Development Block Grant 20.509 – Formula Grant for Other Than Urbanized Areas
Federal Award Number / Year	A-F-09-142-1/2009 A-C-08-142-1/2008 A-Z-08-142-1/2008 RPT-4051-029-091/2009 RPT-4051-029-092/2009 RPT-4051-029-093/2009 RPT-4051-029-094/2009 RPT-4051-029-101/2010 RPT-4051-029-102/2010 RPT-4051-029-103/2010
Federal Agency	United States Department of Housing and Urban Development United States Department of Transportation
Pass-Through Agency	Ohio Department of Development Ohio Department of Transportation

See (GAGAS) finding #2010-001 above; A-133 also requires us to report this finding in this section of the schedule of findings because of its affect on federal programs; the individuals in charge of monitoring federal grant financial activity may not have been able to effectively carry out those responsibilities.

Officials’ Response and Corrective Action Plan:

The City of Marion has continued to train all persons in the City of Marion and will continue, however, the Auditor’s Office has implemented an accumulated transaction report and provided this report to all departments on a monthly basis. This report is provided via email as the goal is to be as paperless as possible to reduce costs.

Anticipated Completion Date: November 14, 2011
Responsible Contact: Kelly Carr, City Auditor

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Financial Monitoring – Material Weakness – Those charged with financial monitoring did not monitor effectively.	No	Not Corrected; Reissued as Finding 2010-001
2009-002	Bank Reconciliations – Material Non-Compliance/Significant Deficiency – untimely bank reconciliations contributed to late preparation of financial statements.	No	Partially Corrected; Reissued in Management Letter
2009-003	Annual Financial Statements – City’s financial statements were not prepared and filed within 150 days of year-end.	No	Partially Corrected; Reissued in Management Letter
2009-004	Investments – Material Non-Compliance/Significant Deficiency – Ohio Revised Code 135 – City invested in CDs of banks not domiciled in Ohio; City purchased CDs with maturities exceeding one year; City Treasurer did not attend required training.	No	Not Corrected; Reissued as Finding 2010-002
2009-005	Income Tax Allocation – Material Non-Compliance/Material Weakness – income taxes were not allocated to funds as required.	Yes	Finding No Longer Valid
2009-006	Appropriations – Material Non-Compliance – Appropriations exceeded Estimated Resources; Appropriations Exceeded Actual Resources;	No	Not Corrected; Reissued as Finding 2010-003
2009-007	Purchasing Authorization Controls – Significant Deficiency – City did not follow established procedures for disbursements.	No	Not Corrected; Reissued as Finding 2010-006
2009-008	Budgetary Expenditures Exceed Appropriations & Accounting System – Material Non-Compliance/Significant Deficiency – Budgetary Expenditures Exceeded Appropriations; budgeted amounts in accounting system did not agree to official amounts adopted by City Council.	No	Not Corrected; Reissued as Finding 2010-004
2009-009	Cash Management – Community Development Block Grants – Material Non-Compliance/Material Weakness – “15-Day Rule” - City did not expend grant draw downs to a balance of less than \$5,000 within fifteen days of receipt.	No	Not Corrected; Reissued as Finding 2010-018
2009-010	Payroll Expenditures – Formula Grant for Other Than Urbanized Areas – Material Weakness/Material Non-Compliance – Transit Department Payroll did not follow established procedures and was not documented in accordance with federal requirements.	No	Not Corrected; Reissued as Finding 2010-016

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 30, 2010
(Continued)**

2009-011	Financial Monitoring – Material Weakness – Those charged with financial monitoring did not monitor effectively.	No	Not Corrected; Reissued as Finding 2010-001
2009-012	Purchasing Authorization Controls – Significant Deficiency – City did not follow established procedures for disbursements.	No	Not Corrected; Reissued as Finding 2010-016



Dave Yost • Auditor of State

CITY OF MARION

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 29, 2011