



**Auditor of State
Betty Montgomery**

**CITY OF MARIETTA
WASHINGTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds..	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual:	
General Fund.....	20
Street Fund.....	21
Community Development Fund	22
Statement of Fund Net Assets – Enterprise Funds	23
Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds	24
Statement of Cash Flows – Enterprise Funds.....	25
Statement of Fiduciary Assets and Liabilities – Agency Funds.....	26
Notes to the Basic Financial Statements	27
Schedule of Federal Awards Expenditures	55
Notes to the Schedule of Federal Awards Expenditures.....	56
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	57
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133.....	59
Schedule of Findings - OMB Circular A-133, Section .505	61
Schedule of Prior Audit Findings - OMB Circular A-133, Section .315(b)	78
Corrective Action Plan - OMB Circular A-133, Section .315(c)	79

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Marietta
Washington County
308 Putnam Street
Marietta, Ohio 45750

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 Marietta, Washington County, Ohio (the City), as of and for the year ended December 31, 2005, 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marietta, Washington County, Ohio, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Street, and Community Development Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

November 9, 2006

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The discussion and analysis of the City of Marietta's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets decreased \$1,771,414. Net assets of governmental activities decreased \$1,017,415 and the business-type activities decreased \$753,999.
- General governmental revenues accounted for \$9,579,942 in revenue or 59% of all revenues in governmental activities. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$6,756,945 or 41% of total revenues of \$16,336,887.
- For governmental activities, total assets decreased \$365,897 as cash and investments increased \$936,555 while grant receivables and capital assets decreased \$1,154,424 and \$211,920, respectively. Total liabilities increased \$651,518 as contracts payable, notes payable, and due to other governments increased \$276,109, \$1,000,000, and \$406,345, respectively. These increases were offset by the accounts payable and long-term liabilities decreases of \$129,081 and \$1,031,283.
- For business-type activities, total assets decreased \$1,168,408 with \$1,101,620 of the decrease attributed to capital assets. Total liabilities decreased \$414,409, mainly from decreases in long-term liabilities of \$442,267.
- Significant variances in budgeted revenues and expenditures resulted in tight General Fund expenditures at the end of 2005 accompanied by liquidity issues carried over to 2006. General Fund budgetary activity is reflected in Table 3.
- A generous bequest of \$533,743 received from the Gutberlet Estate near year end temporarily "beefed up" the General Fund.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Marietta as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Reporting the City of Marietta as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, nonfinancial information such as the condition of City capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities - Most of the City's services are reported here including police, fire, administration, and all departments with the exception of our Sewer and Water Funds.

Business-Type Activities - Sewer and water services have charges based upon the amount of usage. The City charges fees to recoup the cost of the entire operations of our Sewer and Water Treatment Plants as well as all capital expenses associated with the facilities.

Reporting the City of Marietta's Most Significant Funds

Fund Financial Statements

Fund financial statements begin on page 16. Fund financial reports provide detailed information about the City's major funds. Based upon restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Marietta, our major funds are the General, Street, Community Development, State Route 7 TIF, Sewer, and Water Funds.

Governmental Funds Most of the City's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled as part of the financial statements.

Proprietary Funds When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The City of Marietta as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2005 compared to 2004.

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$10,765,709	\$10,919,686	\$3,814,972	\$3,881,760	\$14,580,681	\$14,801,446
Capital Assets, Net	20,931,754	21,143,674	14,585,947	15,687,567	35,517,701	36,831,241
<i>Total Assets</i>	31,697,463	32,063,360	18,400,919	19,569,327	50,098,382	51,632,687
Liabilities						
Current and Other Liabilities	3,777,315	2,130,458	551,841	554,343	4,329,156	2,684,801
Long-term Liabilities						
Due Within One Year	50,615	14,671	438,585	408,225	489,200	422,896
Due in More Than One Year	843,653	1,874,936	6,309,233	6,751,500	7,152,886	8,626,436
<i>Total Liabilities</i>	4,671,583	4,020,065	7,299,659	7,714,068	11,971,242	11,734,133
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	20,618,128	20,807,124	8,247,339	8,949,675	28,865,467	29,756,799
Restricted:						
Street	1,650,452	1,201,620	0	0	1,650,452	1,201,620
Cemetery	101,166	85,085	0	0	101,166	85,085
Community Development	539,605	1,315,290	0	0	539,605	1,315,290
Parking	9,151	6,055	0	0	9,151	6,055
Fire Operations	102,831	43,943	0	0	102,831	43,943
Police Operations	115,847	123,173	0	0	115,847	123,173
Court Operations	201,556	174,472	0	0	201,556	174,472
Recreation	676,741	107,670	0	0	676,741	107,670
Health	74,609	50,953	0	0	74,609	50,953
Other Purposes	286,381	682,038	0	0	286,381	682,038
Debt Service	0	0	39,044	36,102	39,044	36,102
Capital Proejcts	1,730,096	1,754,007	0	0	1,730,096	1,754,007
Perpetual Care:						
Expendable	1,693	1,575	0	0	1,693	1,575
Non-expendable	406,583	398,583	0	0	406,583	398,583
Park Non-expendable Trust	1,000	1,000	0	0	1,000	1,000
Unclaimed Monies	18,169	16,588	0	0	18,169	16,588
Unrestricted	491,872	1,274,119	2,814,877	2,869,482	3,306,749	4,143,601
<i>Total Net Assets</i>	\$27,025,880	\$28,043,295	\$11,101,260	\$11,855,259	\$38,127,140	\$39,898,554

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Total assets decreased \$1,534,305, with a \$365,897 governmental activities decrease and a \$1,168,408 business-type activities decrease. Total liabilities increased \$237,109, with a \$651,518 governmental activities increase and a \$414,409 business-type activities decrease.

For governmental activities, equity in pooled cash increased \$941,185. Part of this increase results from a \$1,067,486 donation (half of which was posted to the General Fund and the remainder in the Gutberlet Armory Fund) from a City resident's estate which remained unspent at year end. Due from Other Governments decreased \$1,154,424. The City recorded no receivable for estate taxes, resulting in a \$243,389 decrease. The City has other decreases in receivables from the Ohio Department of Natural Resources of \$258,232 and from the Ohio Department of Transportation of \$91,984. Also, the City has a \$350,872 decrease in the receivable for Community Housing Improvement Program funding and a \$190,420 decrease in Housing Urban Development funding.

Also for governmental activities, the increase in liabilities of \$651,518 was two fold. Contracts Payable increased \$276,109. Due to Other Governments increased \$406,345 attributed mainly to workers' compensation payable increasing 374% - a \$248,630 increase in the premium. In 2005, the City made a scheduled \$6,500 payment on the Parking Lot Bonds and also made a scheduled \$16,424 payment on the Third Street Paving Issue II loan.

For business-type activities, total assets decreased \$1,168,408. Most of this decrease occurred in capital assets. Total liabilities decreased \$414,409, mainly from decreases in long-term liabilities of \$442,267. In 2005, the City made scheduled debt payments on loans and bonds of \$446,153 and drew down an additional \$7,878.

Table 2 shows the changes in net assets for the year ended December 31, 2005, and comparisons to 2004.

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

(Table 2)
 Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for Services	\$1,726,575	\$1,393,757	\$4,694,312	\$4,576,912	\$6,420,887	\$5,970,669
Operating Grants, Contributions and Interest	4,205,035	4,042,029	0	0	4,205,035	4,042,029
Capital Grants and Contributions	825,335	1,016,552	0	0	825,335	1,016,552
Total Program Revenues	<u>6,756,945</u>	<u>6,452,338</u>	<u>4,694,312</u>	<u>4,576,912</u>	<u>11,451,257</u>	<u>11,029,250</u>
General Revenues						
Property Taxes	682,953	637,815	0	0	682,953	637,815
Income Tax	7,137,326	6,982,055	0	0	7,137,326	6,982,055
Payment in Lieu of Taxes	207,261	220,668	0	0	207,261	220,668
Franchise Tax	104,480	97,549	0	0	104,480	97,549
Grants and Entitlements	622,766	1,126,214	0	0	622,766	1,126,214
Investment Earnings	224,832	215,224	4,449	1,297	229,281	216,521
Donations	535,343	0	0	0	535,343	0
Gain on Sale of Capital Assets	0	1,656	0	0	0	1,656
Other	64,981	95,487	14,430	24,268	79,411	119,755
Total General Revenues	<u>9,579,942</u>	<u>9,376,668</u>	<u>18,879</u>	<u>25,565</u>	<u>9,598,821</u>	<u>9,402,233</u>
Total Revenues	<u>16,336,887</u>	<u>15,829,006</u>	<u>4,713,191</u>	<u>4,602,477</u>	<u>21,050,078</u>	<u>20,431,483</u>
Program Expenses						
General Government:						
Legislative and Executive	3,143,125	3,200,206	0	0	3,143,125	3,200,206
Court	1,237,742	1,203,677	0	0	1,237,742	1,203,677
Security of Persons and Property:						
Police	2,959,518	2,667,361	0	0	2,959,518	2,667,361
Fire	2,784,239	2,733,979	0	0	2,784,239	2,733,979
Public Health Services	852,555	810,048	0	0	852,555	810,048
Community Environment	497,996	316,253	0	0	497,996	316,253
Street	3,137,196	2,246,196	0	0	3,137,196	2,246,196
Parking	79,566	96,592	0	0	79,566	96,592
Leisure Time Activities	585,245	451,330	0	0	585,245	451,330
Intergovernmental	1,993,158	1,332,385	0	0	1,993,158	1,332,385
Interest and Fiscal Charges	48,345	32,873	0	0	48,345	32,873
Sewer	0	0	2,281,281	2,199,708	2,281,281	2,199,708
Water	0	0	3,221,526	2,920,718	3,221,526	2,920,718
Total Program Expenses	<u>17,318,685</u>	<u>15,090,900</u>	<u>5,502,807</u>	<u>5,120,426</u>	<u>22,821,492</u>	<u>20,211,326</u>
<i>Increase (Decrease)</i>						
<i>before Transfers</i>	(981,798)	738,106	(789,616)	(517,949)	(1,771,414)	220,157
Transfers	(35,617)	0	35,617	0	0	0
<i>Increase (Decrease)</i>						
<i>in Net Assets</i>	(1,017,415)	738,106	(753,999)	(517,949)	(1,771,414)	220,157
Net Assets Beginning of Year	28,043,295	27,305,189	11,855,259	12,373,208	39,898,554	39,678,397
Net Assets End of Year	<u>\$27,025,880</u>	<u>\$28,043,295</u>	<u>\$11,101,260</u>	<u>\$11,855,259</u>	<u>\$38,127,140</u>	<u>\$39,898,554</u>

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Governmental Activities

Several revenue sources fund our governmental activities, with the City income tax being the biggest contributor. The income tax rate is 1.7 percent. General revenues from grants and entitlements, such as local government funds, are also a large revenue generator. The City monitors both of these revenue sources very closely for fluctuations because the income tax and intergovernmental revenue represent 44 and 34 percent, respectively, of all revenues in the governmental activities. Income tax revenues accounted for 43.69 percent of all revenues.

Intergovernmental revenues (operating and capital grants) and contributions accounted for 30.79 percent of all revenues. These revenues are not generated from the City's own resources. Such revenues are often unpredictable and accompanied by administrative requirements. The lower this percentage the better in regards to independence.

The largest activity of the City is the general government – legislative and executive program. Included in this program is the activity of the following departments: Council, Mayor, Auditor, Treasurer, Income Tax, Law Director, Engineer, Equipment and Utility Maintenance, Planning, Service Administration, Information Systems, and Land, Buildings, and Parks. This program is primarily funded with general revenues.

Security of persons and property is another major activity of the City, generating 33% of the governmental expenses. During 2005, expenses for police and fire operations amounted to \$2,959,518 and \$2,784,239, respectively. These activities are, for the most part, funded by the municipal income tax. The City attempts to supplement the income and activities of the police department with grants to enable the police department to widen the scope of its activities.

Street activities of the City accounted for 18% of the governmental expenses. Street paving, patching, depreciation, and street lighting expenses during 2005 amounted to \$3,137,196.

Business-Type Activities

The City's business-type activities consist of the sewer and water departments. During 2005, the City completed the \$151,604 Leland Avenue Sewer project which had started in 2003. \$23,097 was paid toward the project in 2005. This project was financed with Sewer Fund revenues. The City spent \$21,538 during 2005 on various water and sewer replacement projects which were not complete by year end.

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,319,360 and expenditures of \$17,118,491.

The fund balance of the General Fund decreased \$730,821. The General Fund's Unreserved Fund Balance of \$1,042,720 represented 12% of current year expenditures. Most of this balance remains in the City's treasury and is invested.

The fund balance of the Street Fund increased \$396,697. The Street Fund's Unreserved Fund Balance of \$1,279,189 represented 56% of current year expenditures.

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The fund balance of the Community Development Fund decreased \$193,962. The Community Development Fund's Deficit Fund Balance of \$142,739 represented 6% of current year expenditures. This fund accounts for federal grant monies under the Community Development Block Grant program for projects to improve the community within the City.

The fund balance of the State Route 7 TIF Fund decreased \$908,461. The Fund's Unreserved Fund Balance of \$137,826 represented 13% of current year expenditures. This fund accounts for monies associated with the tax increment financing for the construction of the State Route 7 Improvement Project.

During 2005, the Water Fund had operating revenues of \$2,424,202 and operating expenses of \$3,004,021. The Sewer Fund had operating revenues of \$2,284,540 and operating expenses of \$2,222,405. The major expenses for these funds are salaries and wages and depreciation on capital assets.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. From time to time during the year, the fund's budget may be amended as needs or conditions change.

During the course of 2005, the City amended its General Fund budget several times. All recommendations for a budget change came from the City Auditor to the Finance Committee of Council for review before going to the whole Council for Ordinance enactment on the change. Since the legal level of budgetary control is at the object level, any budgetary modifications at this level may only be made by resolution of the Council. With the General Fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely, looking for possible revenue shortfalls or over spending by individual departments.

Original budgeted revenues were increased \$81,550. The 2005 final revenue budget was \$9,536,015, which reflects a \$2,571,432 or 37% increase over the 2004 actual revenues of \$6,964,583. The actual 2005 revenues were \$7,902,240. Actual revenues were \$1,633,775 under those budgeted, reflecting a 17% variance, however the revenue variance would have been even greater if not for a bequest in the amount of \$533,743 received and credited to the General Fund. Final budgeted expenditures increased \$111,048 over the original amount. \$56,851 was amended to appropriate a TIF payment, \$22,250 for increases in liability insurance premiums, \$30,000 for increased utility costs, \$139,690 for unanticipated flood recovery costs, and the remaining amounts for increased salaries of the municipal court, fire department, and the law director's office. Actual expenditures were \$2,071,712 under those budgeted, reflecting a 19% variance, yet expenditures exceeded revenues by \$1,060,821. Again, this variance would have been even greater without the large bequest and the unencumbered cash balance at the end of the year would have been \$197,912. The City of Marietta's ending unencumbered cash balance in the General Fund was \$731,655, \$478,360 above the final budgeted amount.

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Capital Assets and Debt Administration

Capital Assets

Table 3 shows year 2005 balances compared to 2004.

(Table 3)
 Capital Assets

	Governmental Activities		Business-Type Activities			
			Sewer Enterprise Fund		Water Enterprise Fund	
	2005	2004	2005	2004	2005	2004
Cost:						
Land	\$1,033,884	\$1,033,884	\$60,980	\$60,980	\$386,120	\$386,120
Construction in Progress	1,990,496	5,269,570	21,538	128,507	0	5,186
Buildings and Improvements	8,160,155	4,660,406	262,092	262,092	44,801	44,801
Machinery and Equipment	4,018,070	4,116,675	965,087	964,419	921,919	910,719
Vehicles	3,041,653	3,134,337	337,441	393,148	391,917	363,195
Infrastructure	27,313,271	26,081,852	27,340,589	27,424,208	27,289,986	27,265,068
Totals at Cost	<u>45,557,529</u>	<u>44,296,724</u>	<u>28,987,727</u>	<u>29,233,354</u>	<u>29,034,743</u>	<u>28,975,089</u>
Accumulated Depreciation:						
Buildings and Improvements	(2,636,320)	(2,406,066)	(105,592)	(100,300)	(31,808)	(30,627)
Machinery and Equipment	(2,854,215)	(2,877,164)	(530,804)	(552,458)	(608,539)	(544,858)
Vehicles	(2,095,177)	(1,965,920)	(220,889)	(321,223)	(310,959)	(269,906)
Infrastructure	(17,040,063)	(15,903,900)	(20,376,928)	(20,131,122)	(21,251,004)	(20,570,381)
Total Accumulated Depreciation	<u>(24,625,775)</u>	<u>(23,153,050)</u>	<u>(21,234,213)</u>	<u>(21,105,103)</u>	<u>(22,202,310)</u>	<u>(21,415,772)</u>
Net:						
Land	1,033,884	1,033,884	60,980	60,980	386,120	386,120
Construction in Progress	1,990,496	5,269,570	21,538	128,507	0	5,186
Buildings and Improvements	5,523,835	2,254,340	156,500	161,792	12,993	14,174
Machinery and Equipment	1,163,855	1,239,511	434,283	411,961	313,380	365,861
Vehicles	946,476	1,168,417	116,552	71,925	80,958	93,289
Infrastructure	10,273,208	10,177,952	6,963,661	7,293,086	6,038,982	6,694,687
Capital Assets, Net	<u>\$20,931,754</u>	<u>\$21,143,674</u>	<u>\$7,753,514</u>	<u>\$8,128,251</u>	<u>\$6,832,433</u>	<u>\$7,559,317</u>

The City's capital assets for governmental and business-type activities as of December 31, 2005, were \$35,517,701 (net of accumulated depreciation). This includes land, buildings and improvements, machinery and equipment, vehicles, infrastructure, and construction in progress.

For governmental activities, capital asset additions during 2005 included \$1,231,419 for infrastructure improvements, \$3,499,749 for building improvements, \$39,256 for two new police cruisers, and \$1,118,593 on various construction in progress activities. These mainly consisted of \$7,750 for the Bike Path extension project, \$356,284 for infrastructure improvements, and \$609,290 for the new Justice Center.

For business-type activities, major capital asset additions during 2005 included the completion of the Leland Avenue sewer project, two water service vehicles, one dump truck, and \$21,538 for on-going sewer and water projects.

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Excluding land, which is not depreciated, the City's capital assets have been depreciated 66% at the end of 2005. Government Activities have been depreciated 54% while Sewer Fund and Water Fund assets have been depreciated 73% and 76% respectively. The City does not have a formal long-term capital improvement plan that would help address the City's replacement and improvement of its capital assets.

Note 10 (Capital Assets) provides capital asset activity during 2005.

Debt

Table 4 below is a summary of the City's debt obligations:

(Table 4)
 Outstanding Debt, at Year End

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
2000 Parking Lot Bonds	\$160,000	\$166,500	\$0	\$0
1999 Third Street Paving OPWC Loan	153,626	170,050	0	0
2005 Capital Facilities				
Bond Anticipation Note	1,000,000	1,000,000	0	0
1999 Sewer Refunding Bonds	0	0	294,577	430,665
2003 Water Refunding Bonds	0	0	4,693,808	4,912,279
2002 Sewer OWDA Loan	0	0	418,511	434,725
1996 Water OPWC Loan	0	0	240,000	260,000
2004 Water OPWC Loan	0	0	470,119	472,058
2000 Sewer OPWC Loan	0	0	382,885	403,007
Totals	<u>\$1,313,626</u>	<u>\$1,336,550</u>	<u>\$6,499,900</u>	<u>\$6,912,734</u>

The total amount of general obligation indebtedness outstanding at any one time shall not exceed 10.5% of the actual value of taxable real and personal property in the City. The City's overall debt limit at December 31, 2005, is \$26,561,422. The City is legally able to issue \$25,247,796 more in debt than is outstanding now.

Additional information on the City's debt can be found in Notes 16 and 17 of this report.

City of Marietta, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Current Financial Issues

Economic Uncertainty - Although employment is at a decade long high, the loss of a number of higher paying manufacturing jobs has had the effect of depressing wages and reducing taxable income. Some of the efforts to sustain and enlarge the current revenue base involve State Route 7 expansion, upgrading the sewer treatment capacity, and competition for industrial development while promoting education quality in the City school system. Marietta will also continue its efforts to draw additional tourism to the community.

Intergovernment Funding - Given the significant reliance on intergovernmental funding, State and federal funding decisions must be watched closely to ensure timely decisions so adjustments can be made if necessary.

General Fund - During the period 2001 through 2005, General Fund expenditures have exceeded revenues by approximately 10%. Most notably, during 2004 the City's General Fund had expenditures exceeding revenue by approximately \$2 million. Liquidity issues were persistent in 2005 and will continue in 2006. Efforts to increase revenues while reducing costs will be needed to restore the health of the General Fund.

Health Care - Costs will continue to rise with inflation for medical and prescription coverage. These costs are increasing at an annual rate of approximately 14% and 16%, respectively. Maintaining the integrity of the City's health insurance plan at an affordable cost is a high priority issue.

Capital Improvements - Significant depreciation of Sewer and Water Fund assets imply a near-term plan will be required to address the aging infrastructure. The City's development and execution of a long-term capital improvement plan will be vital in addressing this issue.

Contacting the City Auditor's Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sharon Adams, Marietta City Auditor, 308 Putnam Street, Marietta, Ohio 45750, 740-373-0473.

City of Marietta, Ohio
Statement of Net Assets
December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$6,414,947	\$2,343,082	\$8,758,029
Cash and Cash Equivalents in Segregated Accounts	43,915	150,440	194,355
Cash and Cash Equivalents with Fiscal Agents	0	39,454	39,454
Investments	315,434	100,000	415,434
Accounts Receivable	29,396	972,292	1,001,688
Payment in Lieu of Taxes Receivable	204,277	0	204,277
Accrued Interest Receivable	9,413	0	9,413
Due from Other Governments	1,785,247	0	1,785,247
Internal Balances	75,470	(75,470)	0
Municipal Income Tax Receivable	1,060,774	0	1,060,774
Special Assessments Receivable	20,947	0	20,947
Loans Receivable	79,741	0	79,741
Materials and Supplies Inventory	31,744	49,471	81,215
Prepaid Items	127,043	74,411	201,454
Property and Other Taxes Receivable	567,361	0	567,361
Deferred Charges	0	161,292	161,292
Non-Depreciable Capital Assets	3,024,380	468,638	3,493,018
Depreciable Capital Assets, Net	17,907,374	14,117,309	32,024,683
Total Assets	31,697,463	18,400,919	50,098,382
Liabilities			
Accounts Payable	245,267	29,730	274,997
Contracts Payable	512,270	91,106	603,376
Accrued Wages Payable	97,613	24,649	122,262
Matured Compensated Absences Payable	55,593	0	55,593
Accrued Interest Payable	21,792	16,294	38,086
Notes Payable	1,000,000	0	1,000,000
Due to Other Governments	767,172	90,318	857,490
Vacation and Other Benefits Payable	545,171	136,774	681,945
Deferred Revenue	532,437	0	532,437
Customer Deposits Payable	0	162,970	162,970
Long-Term Liabilities:			
Due Within One Year	50,615	438,585	489,200
Due In More Than One Year	843,653	6,309,233	7,152,886
Total Liabilities	4,671,583	7,299,659	11,971,242
Net Assets			
Invested in Capital Assets, Net of Related Debt	20,618,128	8,247,339	28,865,467
Restricted for:			
Street	1,650,452	0	1,650,452
Cemetery	101,166	0	101,166
Community Development	539,605	0	539,605
Parking	9,151	0	9,151
Fire Operations	102,831	0	102,831
Police Operations	115,847	0	115,847
Court Operations	201,556	0	201,556
Recreation	676,741	0	676,741
Health	74,609	0	74,609
Other Purposes	286,381	0	286,381
Debt Service	0	39,044	39,044
Capital Projects	1,730,096	0	1,730,096
Perpetual Care:			
Expendable	1,693	0	1,693
Non-expendable	406,583	0	406,583
Park Non-expendable Trust	1,000	0	1,000
Unclaimed Monies	18,169	0	18,169
Unrestricted	491,872	2,814,877	3,306,749
Total Net Assets	\$27,025,880	\$11,101,260	\$38,127,140

See accompanying notes to the basic financial statements

City of Marietta, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
General Government:				
Legislative and Executive	\$3,143,125	\$302,018	\$566,155	\$0
Court	1,237,742	670,097	282,566	0
Security of Persons and Property:				
Police	2,959,518	7,311	12,678	0
Fire	2,784,239	9,500	19,417	0
Public Health Services	852,555	217,104	91,547	0
Community Environment	497,996	0	512,049	0
Street	3,137,196	0	1,453,162	96,917
Parking	79,566	82,628	0	0
Leisure Time Activities	585,245	437,917	17,365	728,418
Intergovernmental	1,993,158	0	1,250,096	0
Interest and Fiscal Charges	48,345	0	0	0
<i>Total Governmental Activities</i>	<u>17,318,685</u>	<u>1,726,575</u>	<u>4,205,035</u>	<u>825,335</u>
Business-Type Activities				
Sewer	2,281,281	2,274,745	0	0
Water	3,221,526	2,419,567	0	0
<i>Total Business-Type Activities</i>	<u>5,502,807</u>	<u>4,694,312</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$22,821,492</u>	<u>\$6,420,887</u>	<u>\$4,205,035</u>	<u>\$825,335</u>

General Revenues

Property Taxes Levied for:

- General Purposes
- Police and Fire Pensions
- Debt Service

Income Taxes Levied for:

- General Purposes
- Street
- Cemetery
- Fire Operations
- Capital Outlay

Payment in Lieu of Taxes

Franchise Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Donations

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$2,274,952)	\$0	(\$2,274,952)
(285,079)	0	(285,079)
(2,939,529)	0	(2,939,529)
(2,755,322)	0	(2,755,322)
(543,904)	0	(543,904)
14,053	0	14,053
(1,587,117)	0	(1,587,117)
3,062	0	3,062
598,455	0	598,455
(743,062)	0	(743,062)
(48,345)	0	(48,345)
<u>(10,561,740)</u>	<u>0</u>	<u>(10,561,740)</u>
0	(6,536)	(6,536)
0	(801,959)	(801,959)
<u>0</u>	<u>(808,495)</u>	<u>(808,495)</u>
<u>(10,561,740)</u>	<u>(808,495)</u>	<u>(11,370,235)</u>
541,609	0	541,609
126,616	0	126,616
14,728	0	14,728
4,578,294	0	4,578,294
1,025,927	0	1,025,927
165,992	0	165,992
846,367	0	846,367
520,746	0	520,746
207,261	0	207,261
104,480	0	104,480
622,766	0	622,766
224,832	4,449	229,281
535,343	0	535,343
64,981	14,430	79,411
<u>9,579,942</u>	<u>18,879</u>	<u>9,598,821</u>
<u>(35,617)</u>	<u>35,617</u>	<u>0</u>
<u>9,544,325</u>	<u>54,496</u>	<u>9,598,821</u>
(1,017,415)	(753,999)	(1,771,414)
<u>28,043,295</u>	<u>11,855,259</u>	<u>39,898,554</u>
<u>\$27,025,880</u>	<u>\$11,101,260</u>	<u>\$38,127,140</u>

City of Marietta, Ohio
Balance Sheet
Governmental Funds
December 31, 2005

	General	Street	Community Development	State Route 7 TIF	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$886,472	\$1,430,563	\$32,223	\$1,221,852	\$2,825,668	\$6,396,778
Cash and Cash Equivalents in Segregated Accounts	28,512	0	0	0	15,403	43,915
Restricted Cash	18,169	0	0	0	0	18,169
Investments	0	0	0	0	315,434	315,434
Receivables:						
Accounts	29,396	0	0	0	0	29,396
Payment in Lieu of Taxes	0	0	0	204,277	0	204,277
Accrued Interest	6,271	952	0	0	2,190	9,413
Interfund	120,807	0	0	0	0	120,807
Municipal Income Tax	651,691	138,327	0	0	270,756	1,060,774
Special Assessments	0	20,947	0	0	0	20,947
Loans	0	0	0	0	79,741	79,741
Property and Other Taxes	551,193	0	0	0	16,168	567,361
Due from Other Governments	349,088	375,002	651,873	0	409,284	1,785,247
Materials and Supplies Inventory	12,205	19,539	0	0	0	31,744
Prepaid Items	99,475	10,827	492	0	16,249	127,043
Total Assets	<u>\$2,753,279</u>	<u>\$1,996,157</u>	<u>\$684,588</u>	<u>\$1,426,129</u>	<u>\$3,950,893</u>	<u>\$10,811,046</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	\$200,517	\$30,246	\$8,235	\$0	\$6,269	\$245,267
Contracts Payable	59,945	220,180	8,250	61,735	162,160	512,270
Accrued Wages Payable	76,424	6,585	232	0	14,372	97,613
Matured Compensated Absences Payable	41,784	0	0	0	13,809	55,593
Due to Other Governments	423,236	26,249	223,305	0	94,382	767,172
Accrued Interest Payable	0	0	0	21,041	0	21,041
Notes Payable	0	0	0	1,000,000	0	1,000,000
Deferred Revenue	796,993	274,606	407,219	204,277	361,627	2,044,722
Interfund Payable	0	0	0	0	45,337	45,337
Total Liabilities	<u>1,598,899</u>	<u>557,866</u>	<u>647,241</u>	<u>1,287,053</u>	<u>697,956</u>	<u>4,789,015</u>
Fund Balances						
Reserved for Encumbrances	93,491	159,102	180,086	1,250	101,998	535,927
Reserved for Loans	0	0	0	0	73,204	73,204
Reserved for Endowments	0	0	0	0	407,583	407,583
Reserved for Unclaimed Monies	18,169	0	0	0	0	18,169
Unreserved, Undesignated, Reported in:						
General Fund	1,042,720	0	0	0	0	1,042,720
Special Revenue Funds (Deficit)	0	1,279,189	(142,739)	0	1,411,687	2,548,137
Permanent Funds	0	0	0	0	1,693	1,693
Capital Projects Funds	0	0	0	137,826	1,256,772	1,394,598
Total Fund Balances	<u>1,154,380</u>	<u>1,438,291</u>	<u>37,347</u>	<u>139,076</u>	<u>3,252,937</u>	<u>6,022,031</u>
Total Liabilities and Fund Balances	<u>\$2,753,279</u>	<u>\$1,996,157</u>	<u>\$684,588</u>	<u>\$1,426,129</u>	<u>\$3,950,893</u>	<u>\$10,811,046</u>

See accompanying notes to the basic financial statements

City of Marietta, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2005*

Total Governmental Fund Balances \$6,022,031

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 20,931,754

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

Investment Earnings	780	
Property Taxes	2,854	
Hotel/Motel Taxes	22,823	
Municipal Income Tax	68,808	
Payment in Lieu of Taxes	204,277	
Special Assessments	20,947	
Intergovernmental Revenues	<u>1,191,796</u>	
Total		1,512,285

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

Bonds Payable	(160,000)	
Accrued Interest Payable	(751)	
Loans Payable	(153,626)	
Compensated Absences Payable - Sick Leave	(580,642)	
Vacation and Other Benefits Payable	<u>(545,171)</u>	
Total		<u>(1,440,190)</u>

Net Assets of Governmental Activities \$27,025,880

See accompanying notes to the basic financial statements

City of Marietta, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Street	Community Development	State Route 7 TIF	Other Governmental Funds	Total Governmental Funds
Revenues						
Property and Other Taxes	\$535,777	\$0	\$0	\$0	\$149,270	\$685,047
Municipal Income Tax	4,570,092	1,025,013	0	0	1,528,279	7,123,384
Payment in Lieu of Taxes	75,000	0	0	157,948	0	232,948
Charges for Services	342,485	0	0	0	604,402	946,887
Fines, Licenses and Permits	458,928	0	0	0	320,760	779,688
Franchise Tax	104,480	0	0	0	0	104,480
Intergovernmental	683,664	1,492,640	2,324,008	18,982	1,438,646	5,957,940
Special Assessments	0	6,744	0	0	0	6,744
Investment Earnings	222,916	27,016	0	1,916	21,824	273,672
Donations	535,243	0	100	0	578,246	1,113,589
Other	75,704	16,071	0	194	3,012	94,981
Total Revenues	7,604,289	2,567,484	2,324,108	179,040	4,644,439	17,319,360
Expenditures						
Current:						
General Government:						
Legislative and Executive	3,257,920	0	0	0	132,705	3,390,625
Court	817,901	0	0	0	384,529	1,202,430
Security of Persons and Property:						
Police	2,668,233	0	0	0	97,964	2,766,197
Fire	1,770,703	0	0	0	866,117	2,636,820
Public Health Services	452,267	0	0	0	373,720	825,987
Community Environment	0	0	524,912	0	25,107	550,019
Street	0	2,259,906	0	0	0	2,259,906
Parking	0	0	0	0	80,846	80,846
Leisure Time Activities	0	0	0	0	423,216	423,216
Capital Outlay	0	0	0	35,940	866,003	901,943
Intergovernmental	0	0	1,993,158	0	0	1,993,158
Debt Service:						
Principal Retirement	0	16,424	0	0	6,500	22,924
Interest and Fiscal Charges	0	3,319	0	51,561	9,540	64,420
Total Expenditures	8,967,024	2,279,649	2,518,070	87,501	3,266,247	17,118,491
Excess of Revenues Over (Under) Expenditures	(1,362,735)	287,835	(193,962)	91,539	1,378,192	200,869
Other Financing Sources (Uses)						
Sale of Capital Assets	11,257	0	0	0	0	11,257
Current Refunding	0	0	0	(1,000,000)	0	(1,000,000)
Transfers In	663,657	108,862	0	0	45,206	817,725
Transfers Out	(43,000)	0	0	0	(810,342)	(853,342)
Total Other Financing Sources (Uses)	631,914	108,862	0	(1,000,000)	(765,136)	(1,024,360)
Net Change in Fund Balances	(730,821)	396,697	(193,962)	(908,461)	613,056	(823,491)
Fund Balances Beginning of Year	1,885,201	1,041,594	231,309	1,047,537	2,639,881	6,845,522
Fund Balances End of Year	\$1,154,380	\$1,438,291	\$37,347	\$139,076	\$3,252,937	\$6,022,031

See accompanying notes to the basic financial statements

City of Marietta, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$823,491)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	1,691,499	
Depreciation	<u>(1,888,922)</u>	
Excess of Depreciation Expense Over Capital Outlay		(197,423)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (14,497)

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

Investment Earnings	197	
Property Taxes	(4,948)	
Hotel/Motel Taxes	2,854	
Municipal Income Tax	13,942	
Payment in Lieu of Taxes	(25,687)	
Special Assessments	(6,744)	
Intergovernmental Revenues	(3,885)	
Estate Taxes	(60,847)	
Grants	(897,660)	
State Shared Revenues	30,305	
Miscellaneous	<u>(30,000)</u>	
Total		(982,473)

In the statement of activities, interest is accrued on outstanding loans, whereas in governmental funds, an interest expenditure is reported when due. 16,075

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

Bond Anticipation Note	1,000,000	
Bonds Payable	6,500	
Loans Payable	<u>16,424</u>	
Total		1,022,924

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

Vacation and Other Benefits Payable	(10,945)	
Compensated Absences Payable - Sick Leave	<u>(27,585)</u>	
Total		<u>(38,530)</u>

Change in Net Assets of Governmental Activities (\$1,017,415)

See accompanying notes to the basic financial statements

City of Marietta, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Property and Other Taxes	\$590,226	\$607,226	\$535,417	(\$71,809)
Municipal Income Tax	5,999,403	5,912,814	4,624,141	(1,288,673)
Payment in Lieu of Taxes	99,455	97,913	75,000	(22,913)
Charges for Services	214,690	211,362	268,560	57,198
Fines, Licenses and Permits	760,895	749,103	464,340	(284,763)
Franchise Tax	133,932	131,857	103,212	(28,645)
Intergovernmental	1,171,841	1,153,682	872,739	(280,943)
Investment Earnings	298,364	323,740	348,195	24,455
Donations	0	0	535,243	535,243
Other	185,659	348,318	75,393	(272,925)
<i>Total Revenues</i>	<u>9,454,465</u>	<u>9,536,015</u>	<u>7,902,240</u>	<u>(1,633,775)</u>
Expenditures				
Current:				
General Government:				
Legislative and Executive	4,598,650	4,703,199	3,276,535	1,426,664
Court	951,850	951,850	806,124	145,726
Security of Persons and Property:				
Police	2,946,652	2,949,651	2,657,660	291,991
Fire	1,944,324	1,947,825	1,776,975	170,850
Public Health Services	482,249	482,248	445,767	36,481
<i>Total Expenditures</i>	<u>10,923,725</u>	<u>11,034,773</u>	<u>8,963,061</u>	<u>2,071,712</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,469,260)</u>	<u>(1,498,758)</u>	<u>(1,060,821)</u>	<u>437,937</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	11,257	11,257
Advances In	680,600	680,600	502,134	(178,466)
Advances Out	0	0	(190,030)	(190,030)
Transfers In	0	265,995	663,657	397,662
Transfers Out	0	(43,000)	(43,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>680,600</u>	<u>903,595</u>	<u>944,018</u>	<u>40,423</u>
<i>Net Change in Fund Balance</i>	<u>(788,660)</u>	<u>(595,163)</u>	<u>(116,803)</u>	<u>478,360</u>
<i>Fund Balance Beginning of Year</i>	<u>243,343</u>	<u>243,343</u>	<u>243,343</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>605,115</u>	<u>605,115</u>	<u>605,115</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$59,798</u></u>	<u><u>\$253,295</u></u>	<u><u>\$731,655</u></u>	<u><u>\$478,360</u></u>

See accompanying notes to the basic financial statements

City of Marietta, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Fund
For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Municipal Income Tax	\$933,796	\$933,796	\$1,008,628	\$74,832
Intergovernmental	585,552	585,552	1,486,381	900,829
Special Assessments	6,775	6,775	6,744	(31)
Investment Earnings	19,600	19,600	42,156	22,556
Other	25,000	25,000	15,711	(9,289)
<i>Total Revenues</i>	<u>1,570,723</u>	<u>1,570,723</u>	<u>2,559,620</u>	<u>988,897</u>
Expenditures				
Current:				
Street	1,921,147	1,995,647	2,427,538	(431,891)
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(350,424)</u>	<u>(424,924)</u>	<u>132,082</u>	<u>557,006</u>
Other Financing Sources (Uses)				
Transfers In	0	0	108,862	108,862
Transfers Out	(6,425)	(6,425)	0	6,425
<i>Total Other Financing Sources (Uses)</i>	<u>(6,425)</u>	<u>(6,425)</u>	<u>108,862</u>	<u>115,287</u>
<i>Net Change in Fund Balance</i>	(356,849)	(431,349)	240,944	672,293
<i>Fund Balance Beginning of Year</i>	727,987	727,987	727,987	0
Prior Year Encumbrances Appropriated	76,387	76,387	76,387	0
<i>Fund Balance End of Year</i>	<u>\$447,525</u>	<u>\$373,025</u>	<u>\$1,045,318</u>	<u>\$672,293</u>

See accompanying notes to the basic financial statements

City of Marietta, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Community Development Fund
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$2,275,194	\$2,833,487	\$2,304,969	(\$528,518)
Donations	<u>0</u>	<u>0</u>	<u>100</u>	<u>100</u>
<i>Total Revenues</i>	<u>2,275,194</u>	<u>2,833,487</u>	<u>2,305,069</u>	<u>(528,418)</u>
Expenditures				
Current:				
Community Environment	809,234	816,154	669,695	146,459
Intergovernmental	<u>2,058,627</u>	<u>2,076,232</u>	<u>1,820,345</u>	<u>255,887</u>
<i>Total Expenditures</i>	<u>2,867,861</u>	<u>2,892,386</u>	<u>2,490,040</u>	<u>402,346</u>
<i>Net Change in Fund Balance</i>	(592,667)	(58,899)	(184,971)	(126,072)
<i>Fund Balance Beginning of Year</i>	16,870	16,870	16,870	0
Prior Year Encumbrances Appropriated	<u>3,988</u>	<u>3,988</u>	<u>3,988</u>	<u>0</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$571,809)</u>	<u>(\$38,041)</u>	<u>(\$164,113)</u>	<u>(\$126,072)</u>

See accompanying notes to the basic financial statements

City of Marietta, Ohio
Statement of Fund Net Assets
Enterprise Funds
December 31, 2005

	Sewer	Water	Total Enterprise Funds
Assets			
Current:			
Equity in Pooled Cash and Cash Equivalents	\$1,599,167	\$681,665	\$2,280,832
Cash and Cash Equivalents in Segregated Accounts	68,921	80,799	149,720
Cash and Cash Equivalents with Fiscal Agents	0	410	410
Accounts Receivable	480,038	492,254	972,292
Materials and Supplies Inventory	12,390	37,081	49,471
Restricted Assets:			
Cash and Cash Equivalents with Fiscal Agents	0	39,044	39,044
Customer Deposits:			
Equity in Pooled Cash and Cash Equivalents	30,502	31,748	62,250
Cash in Segregated Accounts	353	367	720
Investments	49,000	51,000	100,000
Prepaid Items	32,683	41,728	74,411
<i>Total Current Assets</i>	<i>2,273,054</i>	<i>1,456,096</i>	<i>3,729,150</i>
Noncurrent:			
Deferred Charges	8,456	152,836	161,292
Non-Depreciable Capital Assets	82,518	386,120	468,638
Depreciable Capital Assets, Net	7,670,996	6,446,313	14,117,309
<i>Total Noncurrent Assets</i>	<i>7,761,970</i>	<i>6,985,269</i>	<i>14,747,239</i>
<i>Total Assets</i>	<i>10,035,024</i>	<i>8,441,365</i>	<i>18,476,389</i>
Liabilities			
Current:			
Accounts Payable	10,684	19,046	29,730
Contracts Payable	2,724	88,382	91,106
Accrued Wages	12,176	12,473	24,649
Interfund Payable	37,735	37,735	75,470
Due to Other Governments	43,882	46,436	90,318
Vacation and Other Benefits Payable	64,921	71,853	136,774
Accrued Interest Payable	1,050	15,244	16,294
Refunding Bonds Payable	155,000	245,000	400,000
Issue II Loans Payable	10,212	19,916	30,128
OWDA Loans Payable	8,457	0	8,457
Customer Deposits Payable	79,855	83,115	162,970
<i>Total Current Liabilities</i>	<i>426,696</i>	<i>639,200</i>	<i>1,065,896</i>
Long-Term:			
Compensated Absences Payable	92,185	155,733	247,918
Refunding Bonds Payable	139,577	4,448,808	4,588,385
Issue II Loans Payable	372,673	690,203	1,062,876
OWDA Loans Payable	410,054	0	410,054
<i>Total Long-Term Liabilities</i>	<i>1,014,489</i>	<i>5,294,744</i>	<i>6,309,233</i>
<i>Total Liabilities</i>	<i>1,441,185</i>	<i>5,933,944</i>	<i>7,375,129</i>
Net Assets			
Invested in Capital Assets, Net of Related Debt	6,665,997	1,581,342	8,247,339
Restricted for Debt Service	0	39,044	39,044
Unrestricted	1,927,842	887,035	2,814,877
<i>Total Net Assets</i>	<i>\$8,593,839</i>	<i>\$2,507,421</i>	<i>\$11,101,260</i>

See accompanying notes to the basic financial statements

City of Marietta, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2005*

	Sewer	Water	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$2,274,745	\$2,419,567	\$4,694,312
Other Operating Revenues	9,795	4,635	14,430
<i>Total Operating Revenues</i>	<u>2,284,540</u>	<u>2,424,202</u>	<u>4,708,742</u>
Operating Expenses			
Salaries and Wages	736,305	783,480	1,519,785
Fringe Benefits	330,784	396,781	727,565
Contractual Services	454,552	657,223	1,111,775
Materials and Supplies	99,239	365,927	465,166
Other Operating Expenses	13,549	14,072	27,621
Depreciation	587,976	786,538	1,374,514
<i>Total Operating Expenses</i>	<u>2,222,405</u>	<u>3,004,021</u>	<u>5,226,426</u>
<i>Operating Income (Loss)</i>	<u>62,135</u>	<u>(579,819)</u>	<u>(517,684)</u>
Non-Operating Revenues (Expenses)			
Interest Income	0	4,449	4,449
Loss on Disposal of Capital Assets	(3,883)	0	(3,883)
Interest and Fiscal Charges	(54,993)	(217,505)	(272,498)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(58,876)</u>	<u>(213,056)</u>	<u>(271,932)</u>
<i>Income (Loss) Before Transfers</i>	3,259	(792,875)	(789,616)
Transfers In	13,424	22,193	35,617
<i>Change in Net Assets</i>	16,683	(770,682)	(753,999)
<i>Net Assets Beginning of Year</i>	<u>8,577,156</u>	<u>3,278,103</u>	<u>11,855,259</u>
<i>Net Assets End of Year</i>	<u>\$8,593,839</u>	<u>\$2,507,421</u>	<u>\$11,101,260</u>

See accompanying notes to the basic financial statements

City of Marietta, Ohio
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2005

	Sewer	Water	Total Enterprise Funds
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$2,263,605	\$2,394,604	\$4,658,209
Cash Payments for Employee Services and Benefits	(1,045,291)	(1,149,620)	(2,194,911)
Cash Payments to Suppliers for Goods and Services	(531,592)	(910,513)	(1,442,105)
Other Operating Revenues	10,824	4,043	14,867
Other Operating Expenses	(18,749)	(14,072)	(32,821)
Customer Deposits Received	18,341	19,089	37,430
Customer Deposits Returned	(15,330)	(15,955)	(31,285)
<i>Net Cash Provided by Operating Activities</i>	<u>681,808</u>	<u>327,576</u>	<u>1,009,384</u>
Cash Flows from Noncapital Financing Activities:			
Advance Out	(1,730)	(27,511)	(29,241)
Transfers In	13,424	22,193	35,617
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>11,694</u>	<u>(5,318)</u>	<u>6,376</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(338,181)	(50,044)	(388,225)
Loans Received	0	7,878	7,878
Principal Paid on Debt	(181,336)	(264,817)	(446,153)
Interest Paid on Debt	(42,875)	(191,507)	(234,382)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(562,392)</u>	<u>(498,490)</u>	<u>(1,060,882)</u>
Cash Flows from Investing Activities:			
Investment Earnings	0	4,449	4,449
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	131,110	(171,783)	(40,673)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,567,833</u>	<u>1,005,816</u>	<u>2,573,649</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$1,698,943</u>	<u>\$834,033</u>	<u>\$2,532,976</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
<i>Operating Income (Loss)</i>	\$62,135	(\$579,819)	(\$517,684)
Adjustments:			
Depreciation	587,976	786,538	1,374,514
(Increase)/Decrease in Assets:			
Accounts Receivable	(11,140)	(25,555)	(36,695)
Due from Other Governments	1,029	0	1,029
Materials and Supplies Inventory	(3,554)	8,345	4,791
Prepaid Items	(355)	(2,434)	(2,789)
Increase/(Decrease) in Liabilities:			
Accounts Payable	(12,775)	(1,565)	(14,340)
Contracts Payable	1,148	70,556	71,704
Accrued Wages Payable	(619)	1,452	833
Interfund Payable for Cost Allocation	37,735	37,735	75,470
Due to Other Governments	17,777	24,986	42,763
Vacation Benefits Payable	(1,463)	4,179	2,716
Customer Deposits Payable	3,011	3,134	6,145
Compensated Absences Payable	903	24	927
<i>Net Cash Provided by Operating Activities</i>	<u>\$681,808</u>	<u>\$327,576</u>	<u>\$1,009,384</u>

See accompanying notes to the basic financial statements

City of Marietta, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2005

Assets

Equity Pooled in Cash and Cash Equivalents	\$774,793
Cash and Cash Equivalents in Segregated Accounts	98,688
Taxes Receivable	18,152
Accounts Receivable	<u>331,404</u>

Total Assets \$1,223,037

Liabilities

Due to Other Governments	\$68,545
Due to Others	<u>1,154,492</u>

Total Liabilities \$1,223,037

See accompanying notes to the basic financial statements

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Marietta (the “City”) is a body politic, incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The City is organized as a Mayor/Council form of government. Located in Washington County in southern Ohio at the confluence of the Muskingum and Ohio Rivers, Marietta was the first village incorporated in the Northwest Territory. Marietta became a city in 1825. The City serves as the county seat.

The Mayor, Auditor, Treasurer, and Law Director, all with four year terms, and a seven member Council, with two year terms, are elected. Department directors and public members of various boards and commissions are appointed by the Mayor.

Report Entity

The financial reporting entity consists of the primary government, component units, and other governmental organizations included ensuring that the financial statements of the City are not misleading. 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 that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes for the organization. No separate government units meet the criteria for inclusion as a component unit.

The City provides various services including police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, water and water pollution control, and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. These City operations form the legal entity of the City and are included as the primary government.

The following have been excluded from the financial reporting entity:

- Washington County Public Library
- Marietta City School District
- Marietta Memorial Hospital
- Marietta College
- Marietta Harbor
- Marietta Tourist and Convention Bureau
- O'Neill Senior Citizens Center Corporation
- The Marietta Chamber of Commerce
- The Marietta Cooperative Child Center
- Marietta/Parkersburg Area Labor Management Citizens Committee

The City participates in the Buckeye Hills-Hocking Valley Regional Development District, the Community Action Program Corporation of Washington-Morgan Counties, Ohio, and the Wood, Washington, and Wirt Planning Commission, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 19.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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 and those that are considered business-type activities.

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

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

B. Fund Accounting

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

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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

Street Fund The Street Fund is used to account for that portion of the State gasoline tax and motor vehicle registration fees designated for maintenance of streets within the City.

Community Development Fund The Community Development Fund is used to account for federal grant monies for projects to improve the community within the City and to be passed thru to the Community Action Program Corporation of Washington-Morgan Counties.

State Route 7 TIF This fund is used to account for monies associated with the tax increment financing and bond anticipation notes for the construction of the State Route 7 Improvement Project.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The City's proprietary funds are all classified as 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. All of the City's enterprise funds are major funds.

Sewer Fund The Sewer Fund is used to account for the revenues generated from the charges for sanitary sewer services provided to the residential and commercial users of the City.

Water Fund The Water Fund is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users of the City.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. There are four categories of fiduciary funds; pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds. The City's agency funds account for monies held for employees from insurance demutualization, bed taxes collected for the Tourist and Convention Bureau, payroll activity, and municipal court collections that are distributed to the State and various local governments.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from a nonexchange transaction must also be available before it can be recognized.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met also have been recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budget Process

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

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

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

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool, except for the Cemetery Trust Fund which is invested separately. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" in the financial statements.

During 2005, investments were limited to certificates of deposit, which are reported at cost.

Following the Codified Ordinances of the City as well as Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest is distributed to the General Fund, the Street Special Revenue Fund, Anthem Demutualization Agency Fund, and the Cemetery Trust Permanent Fund. Interest revenue credited to the General Fund during 2005 amounted to \$222,916, which includes \$206,765 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented in the financial statements as "Cash and Cash Equivalents in Segregated Accounts" since they are not deposited into the City's treasury.

Cash and cash equivalents that are held separately for the City by fiscal agents and not held with the City Treasurer are recorded as "Cash and Cash Equivalents with Fiscal Agents".

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

G. 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, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Restricted assets represent certain resources which are segregated from other resources of the City to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the City or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

Restricted assets also represent utility deposits from customers that are classified as restricted because their use is limited to the payment of unpaid utility bills or refunding of the deposit to the customer. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as restricted.

H. Inventory

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

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, 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.

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 the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market value as of the date received. The City maintains a capitalization threshold of one 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.

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. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Buildings and Improvements	40 - 50 years	40 - 50 years
Machinery and Equipment	10 - 15 years	10 - 15 years
Vehicles	3 - 5 years	3 - 5 years
Infrastructure	10 - 25 years	10 - 50 years

The City's infrastructure consists of City streets, street signs, decorative lights, traffic signals, and water and sewer systems and includes infrastructure acquired prior to December 31, 1980.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as "vacation and other benefits payable". The balances are to be used by employees in the year following the year in which the benefit was earned.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated, unused sick leave with the following criteria by department: after five years of service for the Parking Meter Department, after twelve years of service for the Fire Department, after fifteen years of service for the Water, Sewer, Street, Engineer, Maintenance, Cemetery, Recreation, and Income Tax Departments, after twenty years of service for the Police, Parks, Health, Community Development Clerk, Court, and Information Systems Department, and after twenty five years for Law Director's office and Clerk of Council.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are reported as "matured benefits payable" in the fund from which the employees who will receive the payment are paid.

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Fund Balance Reserves

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports \$5,915,880 of restricted net assets, of which \$2,284,047 is restricted by enabling legislation.

Net assets restricted for other purposes include activities related to flood disaster and the law director's office.

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

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

O. 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 and water utility services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting the definition are reported as non-operating.

P. Interfund Activity

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

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

Q. Interfund Assets and Liabilities

On the fund financial statements, outstanding interfund loans and unpaid amounts for internal services are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net assets, except for any net residual amounts due between governmental and business-type activities. These amounts are presented as "Internal Balances".

R. Bond Discount/Issuance Costs and Accounting Gains

On government-wide financial statements, issuance costs, accounting gains, and bond discounts are deferred and amortized over the term of the bonds. Issuance costs are recorded as deferred charges. Bond discounts and accounting gains are presented as reductions to the face amount of the bonds.

S. Estimates

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

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

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

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the General Fund and the Street and Community Development Special Revenue Funds.

Net Change in Fund Balance

	<u>General</u>	<u>Street</u>	<u>Community Development</u>
GAAP Basis	(\$730,821)	\$396,697	(\$193,962)
Net Adjustment for Revenue Accruals	160,862	(23,768)	(19,039)
Beginning of Year:			
Unrecorded Cash	3,219	0	0
Unrecorded Interest	139,911	17,569	0
Prepaid Items	106,732	8,602	417
Segregated Accounts	32,324	0	0
End of Year:			
Unrecorded Cash	(402)	0	0
Unrecorded Interest	(9,451)	(1,665)	0
Prepaid Items	(99,475)	(10,827)	(492)
Segregated Accounts	(28,512)	0	0
Net Adjustment for Expenditure Accruals	159,839	237,916	224,441
Advances In	502,134	0	0
Advances Out	(190,030)	0	0
Encumbrances	(163,133)	(383,580)	(196,336)
Budget Basis	<u>(\$116,803)</u>	<u>\$240,944</u>	<u>(\$184,971)</u>

NOTE 4 – CHANGES IN ACCOUNTING PRINCIPLES

For 2005, the City has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures” and GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.”

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

NOTE 5 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The Marietta Harbor Capital Projects Fund has a deficit fund balance of \$27,954 as of December 31, 2005. The deficit is the result of the recognition of interfund payables to the General Fund. Once grant reimbursements are received, the deficit will be eliminated.

B. Statutory Compliance

The following fund had original appropriations in excess of original estimated revenues plus available balances for the year ended December 31, 2005:

	Estimated Revenues plus Balances	Appropriations plus Encumbrances	Excess
Community Development Special Revenue Fund	\$2,296,052	\$2,867,861	(\$571,809)

The following fund had final appropriations in excess of final estimated revenues plus available balances for the year ended December 31, 2005:

	Estimated Revenues plus Balances	Appropriations plus Encumbrances	Excess
Community Development Special Revenue Fund	\$2,854,345	\$2,892,386	(\$38,041)

The following fund had expenditures in excess of revenues plus available balances which resulted in a deficit fund balance for the year ended December 31, 2005:

	Estimated Revenues plus Balances	Appropriations plus Encumbrances	Excess
Community Development Special Revenue Fund	\$2,325,927	\$2,490,040	(\$164,113)

The following account had expenditures in excess of final appropriations for the year ended December 31, 2005:

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Appropriations	Actual Expenditures	Excess
Street Special Revenue Fund:			
Contractual Services	\$483,601	\$1,081,056	(\$597,455)

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

Interim deposits are deposits 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 finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

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

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

6. The State Treasurer's investment pool (STAROhio).

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Historically, the City has not purchased these types of investments or issued these types of notes. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

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, the carrying amount of the City's deposits was \$10,277,244 and the bank balance was \$10,585,396. Of the bank balance \$616,824 was covered by Federal depository insurance and \$9,968,572 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions' trust department or agent, but not in the City's name.

The City has no deposit policy for custodial 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 one hundred five percent of the deposits being secured.

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for all property except inventory, which has a rate of 23 percent.

The full tax rate for all City operations for the year ended December 31, 2005, was \$2.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$221,885,650
Public Utility Property	5,811,570
Tangible Personal Property	<u>25,268,700</u>
	<u><u>\$252,965,920</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, 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 in the county, including the City of Marietta. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding collectible delinquencies which are measurable as of December 31, 2005, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue, while the remainder of the receivable has been deferred.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2005, consisted of taxes, accounts (billings for user charged services including unbilled utility services), payments in lieu of taxes, special assessments, interfund, accrued interest, loans, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered collectible in full. Delinquent sewer accounts receivable (billings for user charged services) are certified and collected as a special assessment, subject to foreclosure for nonpayment. The financial statements reflect loans receivable of \$79,741. This amount is for the principal owed to the City for Federal Community Development Block Grant Program monies loaned to individuals for the demolition of condemned buildings and home improvements. The loans bear interest at annual rates of zero to three percent. The loans are to be repaid over periods ranging from two to fifteen years. The amount not scheduled for collection during the subsequent year is \$73,204.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	<u>Amount</u>
Local Government	\$317,996
Homestead and Rollback	21,068
FEMA	255,892
Tax Reimbursements	5,224
Health Subsidy	4,300
Immobilization Fees	500
Community Development Block Grant	228,987
Comprehensive Housing Improvement Program	204,128
Housing Urban Development	218,758
Gasoline Tax and Motor Vehicle License	374,642
Bureau of Workers' Compensation	360
Community Corrections Grant	73,348
Victims Information Program	20,073
Stop Violence Against Women	1,629
Indigent Alcohol	5,904
Immunizations	788
Children with Medical Handicaps Reimbursements	3,350
Welfare Reimbursements	166
Medicare	15,040
Mareitta Harbor	<u>33,094</u>
Total Governmental Activities	<u><u>\$1,785,247</u></u>

NOTE 9 - INCOME TAX

The City levies a municipal income tax of 1.7 percent on substantially all earned income arising from employment, residency, or business activities within the City as well as income of residents earned outside of the City.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds were distributed to funds in the following manner: 64% to the General Fund, 15% to the Street Special Revenue Fund, 12% to the Fire Levy Special Revenue Fund, 2% to the Cemetery Special Revenue Fund, and 7% to the Capital Improvement Capital Projects Fund.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 10 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/04	Increases	Decreases	Balance 12/31/05
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$1,033,884	\$0	\$0	\$1,033,884
Construction in Progress	5,269,570	1,118,593	4,397,667	1,990,496
Total Capital Assets not being Depreciated	<u>6,303,454</u>	<u>1,118,593</u>	<u>4,397,667</u>	<u>3,024,380</u>
Capital Assets being Depreciated:				
Buildings and Improvements	4,660,406	3,499,749	0	8,160,155
Machinery and Equipment	4,116,675	200,149	298,754	4,018,070
Vehicles	3,134,337	39,256	131,940	3,041,653
Infrastructure	26,081,852	1,231,419	0	27,313,271
Total Capital Assets being Depreciated	<u>37,993,270</u>	<u>4,970,573</u>	<u>430,694</u>	<u>42,533,149</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,406,066)	(230,254)	0	(2,636,320)
Machinery and Equipment	(2,877,164)	(269,306)	(292,255)	(2,854,215)
Vehicles	(1,965,920)	(253,199)	(123,942)	(2,095,177)
Infrastructure	(15,903,900)	(1,136,163)	0	(17,040,063)
Total Accumulated Depreciation	<u>(23,153,050)</u>	<u>(1,888,922) *</u>	<u>(416,197)</u>	<u>(24,625,775)</u>
Total Capital Assets being Depreciated, Net	<u>14,840,220</u>	<u>3,081,651</u>	<u>14,497</u>	<u>17,907,374</u>
Governmental Activities Capital Assets, Net	<u>\$21,143,674</u>	<u>\$4,200,244</u>	<u>\$4,412,164</u>	<u>\$20,931,754</u>

* Depreciation expense was charged to governmental programs as follows:

General Government - Legislative and Executive	\$108,664
General Government - Court	65,109
Security of Persons and Property:	
Police	111,423
Fire	146,482
Public Health Services	27,576
Community Environment	3,708
Street	1,234,034
Parking	34
Leisure Time Activities	191,892
Total Depreciation Expense	<u>\$1,888,922</u>

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Balance 12/31/04	Increases	Decreases	Balance 12/31/05
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$447,100	\$0	\$0	\$447,100
Construction in Progress	133,693	49,449	161,604	21,538
Total Capital Assets not being Depreciated	<u>580,793</u>	<u>49,449</u>	<u>161,604</u>	<u>468,638</u>
Capital Assets being Depreciated:				
Buildings and Improvements	306,893	0	0	306,893
Machinery and Equipment	1,875,138	109,395	97,527	1,887,006
Vehicles	756,343	103,015	130,000	729,358
Infrastructure	54,689,276	176,522	235,223	54,630,575
Total Capital Assets being Depreciated	<u>57,627,650</u>	<u>388,932</u>	<u>462,750</u>	<u>57,553,832</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(130,927)	(6,473)	0	(137,400)
Machinery and Equipment	(1,097,316)	(139,554)	(97,527)	(1,139,343)
Vehicles	(591,129)	(70,719)	(130,000)	(531,848)
Infrastructure	(40,701,504)	(1,157,768)	(231,340)	(41,627,932)
Total Accumulated Depreciation	<u>(42,520,876)</u>	<u>(1,374,514)</u>	<u>(458,867)</u>	<u>(43,436,523)</u>
Total Capital Assets being Depreciated, Net	<u>15,106,774</u>	<u>(985,582)</u>	<u>3,883</u>	<u>14,117,309</u>
Business-Type Activities Capital Assets, Net	<u>\$15,687,567</u>	<u>(\$936,133)</u>	<u>\$165,487</u>	<u>\$14,585,947</u>

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City contracts with Barengo Insurance Agency who, on behalf of the City, negotiates property and casualty insurance coverage with various carriers. St. Paul Fire and Marine Insurance is the carrier providing commercial general liability insurance, which has a \$2,000,000 per occurrence limit with an additional \$4,000,000 in umbrella liability coverage. CNA Insurance Companies is the carrier providing property, computer, crime, etc. coverage for the City with the following coverage limits and deductibles.

<u>Property</u>	<u>Limit</u>	<u>Deductible</u>	
Real Property	\$64,938,108	\$5,000	
Boiler and Machinery	2,000,000	5,000	
Personal Property	7,298,942	5,000	
	Limit (Per		
<u>Liability</u>	<u>Occurrence)</u>	<u>Aggregate</u>	<u>Deductible</u>
Commercial General	\$2,000,000	\$2,000,000	\$1,000
Medical Professional	2,000,000	2,000,000	1,000
Employee Benefits	2,000,000	6,000,000	1,000
Employer Liability	2,000,000	2,000,000	0
Firemen's Errors and Omissions	2,000,000	2,000,000	1,000
Pubic Officials Wrongful Acts	2,000,000	2,000,000	5,000
Law Enforcement	2,000,000	2,000,000	15,000
Employment Practices	2,000,000	2,000,000	25,000
Umbrella	4,000,000	4,000,000	10,000

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Vehicles are covered by St. Paul Fire and Marine Insurance and have a \$500 deductible for comprehensive and \$1,000 for collision. Automobile liability has a \$2,000,000 combined single limit for bodily injury and liability for property damage. The Assistant Safety-Service Director reviews all claims.

There were no significant reductions in coverage from prior years. Settlements have not exceeded coverage in any of the last three years.

For 2005, the City participated in the Ohio Municipal League of Ohio 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 participating cities 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 rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total 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 Cities that can meet the Plan's selection criteria. The firm of Gates McDonald 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 of the Ohio Bureau of Worker's 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 the representative of the Plan to access less experience for three years following the last year of participation.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003, were \$483,952, \$456,334, and \$308,086, respectively; 91.61 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plant for 2005 were \$13,783 made by the City and \$8,646 made by the plan members.

B. Police and Firemen's Disability and Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$199,376 and \$276,545 for the year ended December 31, 2005, \$183,601 and \$262,205 for the year ended December 31, 2004, and \$159,448 and \$252,171 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 73.74 percent and 75.86 percent has been contributed for 2005.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual City contributions for 2005 which were used to fund postemployment benefits were \$202,702. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Police and Firemen's Disability and Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment health care benefits were \$131,503 for police and \$131,891 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters

NOTE 14 - OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plans

City employees and elected officials participate in a statewide deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

B. Employee Health Benefits

The City provides \$20,000 in life insurance and accidental death and dismemberment insurance to its full-time employees, part-time employees hired before July 1, 1992, and working a minimum of twenty hours per week, part-time employees hired after July 1, 1992, and working a minimum of thirty hours per week, and all elected public officials through Anthem Life.

The City provides comprehensive major medical insurance under three plans through Anthem Blue Cross and Blue Shield. The first plan has \$100 single and \$200 family deductible limits and 20% employee copayments for the next \$1,000 single and \$2,000 family in eligible claims. The City pays \$855.35 of the total monthly premium of \$1,234.60 for family coverage and \$285.07 of the total monthly premium of \$411.25 for single coverage. The second plan is a Preferred Provider plan. Deductibles and copayments for "in-network" services are the same as described in the first plan. The City pays \$855.35 of the total monthly premium of \$971.99 for family coverage and \$285.07 of the total monthly premium of \$323.94 for single coverage. The third plan is a point-of-service plan. Deductible and copayments for "in-network" services are the same as described in the first plan. The City pays \$855.82 of the total monthly premium of \$931.06 for family coverage and \$285.07 of the total monthly premium of \$310.99 for single coverage. Premiums are paid from the same funds that pay the employees' salaries.

C. Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Upon retirement, all employees hired prior to January 1, 1988, except Firemen and Teamsters, are paid 100% of their sick leave up to a maximum of 120 days. All employees hired after January 1, 1988, except Firemen and Teamsters, are paid fifty percent of their sick leave at the time of retirement up to a maximum of 120 days accumulation. If hired before January 1, 1991, firemen whose employment with the City is terminated either by retirement or after twelve years of consecutive employment by the City, are paid for accumulated sick leave up to a maximum of 120 days accumulation. If hired after January 1, 1991, firemen whose employment with the City is terminated either by retirement or after twelve years of consecutive employment by the City, are paid fifty percent of their accumulated sick leave up to a maximum 120 days accumulation. Teamsters hired prior to January 1, 1992, are paid 100% of their sick leave at the time of retirement up to a maximum of 120 days accumulation. Teamsters hired after January 1, 1992, are paid fifty percent of their sick leave at the time of retirement up to a maximum of 120 days accumulation. Upon voluntary termination, death, or retirement, all employees will receive 100% of vacation earned and not previously taken.

NOTE 15 - CONTRACTUAL COMMITMENTS

As of December 31, 2005, the City had contractual purchase commitments for projects in various funds. The amount for each project is as follows:

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	Purchase Commitments	Amount Expended	Amount Remaining on Contracts
<u>Capital Asset Projects:</u>			
<i>2005 Asphalt Paving:</i>			
Street Fund	\$239,526	\$144,800	\$94,726
Capital Improvement Fund	141,925	113,485	28,440
	<u>381,451</u>	<u>258,285</u>	<u>123,166</u>
<i>State Route 7 Access Road:</i>			
Street Fund	272,363	245,292	27,071
Access Road Fund	36,632	33,437	3,195
State Route 7 TIF Fund	136,801	136,801	0
Water Fund	1,830	1,830	0
	<u>447,626</u>	<u>417,360</u>	<u>30,266</u>
<i>Justice Center:</i>			
General Fund	321,310	321,310	0
Court Capital Improvement Fund	889,642	874,668	14,974
	<u>1,210,952</u>	<u>1,195,978</u>	<u>14,974</u>
<i>Cisler Driver Water and Sewer Replacement:</i>			
Water Fund	24,235	12,265	11,970
Sewer Fund	2,500	0	2,500
	<u>26,735</u>	<u>12,265</u>	<u>14,470</u>
<i>Bellvue Street Sanitary Sewer Replacement:</i>			
Sewer Fund	7,100	5,148	1,952
<i>Buckeye Park Basketball Court:</i>			
Community Development Fund	27,740	500	27,240
<i>Bike Path Extension:</i>			
Community Development Fund	13,750	7,750	6,000
<i>Pine Meadows Lift Station:</i>			
Sewer Fund	6,500	4,125	2,375
<i>Decorative Street Lighting:</i>			
Community Development Fund	101,902	43,945	57,957
<i>North Hills Water Storage Tank:</i>			
Water Fund	9,612	0	9,612
<i>Well #9:</i>			
Water Fund	43,411	0	43,411
<i>Total Capital Asset Projects:</i>	<u>2,276,779</u>	<u>1,945,356</u>	<u>331,423</u>
<u>Non-Capital Asset Projects:</u>			
<i>Har-Bar Erosion Control:</i>			
Sewer Fund	42,444	1,000	41,444
<i>Gilman Avenue Slip Repair:</i>			
Street Fund	4,000	1,800	2,200
<i>Total Non-Capital Asset Projects:</i>	<u>46,444</u>	<u>2,800</u>	<u>43,644</u>
Total All Projects	<u>\$2,323,223</u>	<u>\$1,948,156</u>	<u>\$375,067</u>

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City for the year ended December 31, 2005, were as follows:

	Principal Outstanding 12/31/04	Additions	Deletions	Principal Outstanding 12/31/05	Amounts Due in One Year
Governmental Activities:					
Parking Lot Bonds					
2000 - \$190,000 @ 5.73%	\$166,500	\$0	\$6,500	\$160,000	\$7,000
Third Street Paving OPWC Loan					
1999 - \$254,765 @ 2%	170,050	0	16,424	153,626	8,335
Capital Facilities Bond					
Anticipation Note - 3.05%	1,000,000	0	1,000,000	0	0
Compensated Absences - Sick Leave	553,057	59,486	31,901	580,642	35,280
Total Governmental Activities	<u>\$1,889,607</u>	<u>\$59,486</u>	<u>\$1,054,825</u>	<u>\$894,268</u>	<u>\$50,615</u>
Business-Type Activities:					
<u>Bonds:</u>					
Sewer Refunding Bonds					
1999 - \$1,215,000 @ 3.2 - 4%	\$460,000	\$0	\$145,000	\$315,000	\$155,000
Unamortized Accounting Gain	(29,335)	0	(8,912)	(20,423)	0
Total Sewer Refunding Bonds	<u>430,665</u>	<u>0</u>	<u>136,088</u>	<u>294,577</u>	<u>155,000</u>
Water Refunding Bonds					
2003 - \$5,650,000 @ 2.0 - 4.3%	5,185,000	0	235,000	4,950,000	245,000
Bond Discount	(8,713)	0	(528)	(8,185)	0
Accounting Gain	(264,008)	0	(16,001)	(248,007)	0
Total Water Refunding Bonds	<u>4,912,279</u>	<u>0</u>	<u>218,471</u>	<u>4,693,808</u>	<u>245,000</u>
Total Bonds	<u>5,342,944</u>	<u>0</u>	<u>354,559</u>	<u>4,988,385</u>	<u>400,000</u>
<u>Loans:</u>					
Sewer OWDA Loan					
2002 - \$458,437 @ 3.89%	434,725	0	16,214	418,511	8,457
Water OPWC Loan					
1996 - \$400,000 @ 0%	260,000	0	20,000	240,000	10,000
Water Glendale Tank OPWC Loan					
2004 - \$479,936 @ 2%	472,058	7,878	9,817	470,119	9,916
Sewer OPWC Loan					
2000 - \$461,023 @ 2%	403,007	0	20,122	382,885	10,212
Total Loans	<u>1,569,790</u>	<u>7,878</u>	<u>66,153</u>	<u>1,511,515</u>	<u>38,585</u>
Compensated Absences - Sick Leave	246,991	927	0	247,918	0
Total Business-Type Activities	<u>\$7,159,725</u>	<u>\$8,805</u>	<u>\$420,712</u>	<u>\$6,747,818</u>	<u>\$438,585</u>

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

The parking lot bonds will be paid from general property tax revenues. The paving OPWC Loan was issued to finance paving on Third Street in the City. The loan will be paid from intergovernmental revenue of the Street Special Revenue Fund. Enterprise fund obligations will be paid from user fees in the respective enterprise funds. The Ohio Public Works Commission (OPWC) loans in the Water Enterprise Fund were issued to help finance the water treatment plant phase III improvements and the Glendale tank storage replacement. The OPWC loan in the Sewer Enterprise Fund was issued to help finance the sludge belt press project. The Ohio Water Development Authority (OWDA) loan was issued to help finance the sewer grit removal project. Compensated absences reported in the "compensated absences payable" account will be paid from the fund which the employees' salaries are paid, which are the General Fund; the Community Development, Marietta Housing, Street, Parking, and Fire Levy Special Revenue Funds; and the Water and Sewer Enterprise Funds.

The Capital Facilities Bond Anticipation Note was issued to finance the State Route 7 Access Road and widening project. The notes were repaid in May 2006, before the issuance of these financial statements. The project was delayed due to land sale disputes; therefore, none of the note proceeds had been spent towards the project.

On April 15, 1999, the City issued \$1,215,000 in sewer system refunding bonds which were used to retire the 1988 sewer system general obligation bonds of \$425,000 and the 1988 sewer mortgage revenue bonds of \$1,150,000.

On March 1, 2003, the City issued \$5,650,000, of water system revenue refunding bonds which were used to refund the 1996 water revenue bonds in the amount of \$5,175,000. The revenue bonds were sold at a discount of \$9,505 that will be amortized over the life of the bonds using the straight-line method. Issuance costs associated with the bond issue in the amount of \$177,487 are deferred and amortized over the life of the bonds using the straight-line method. \$5,463,008 (after discount, underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded 1996 water revenue bonds. At December 31, 2005, \$4,790,765 remains in this account. As a result, \$5,175,000 of refunded bonds is considered defeased and the liability is removed from the statement of net assets.

The refunding resulted in an advance refunding of the 1996 water revenue bonds. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$288,008. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is amortized to interest expense through the year 2021 using the straight-line method. The amount amortized for 2005 is \$16,001.

Principal and interest requirements to retire the governmental activities bonds outstanding at December 31, 2005, are as follows:

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Year	Parking Lot Bonds	
	Principal	Interest
2006	\$7,000	\$9,168
2007	7,500	8,766
2008	8,000	8,338
2009	8,000	7,878
2010	9,000	7,420
2011-2015	51,500	28,962
2016-2020	69,000	12,292
	\$160,000	\$82,824

Principal and interest requirements to retire the Third Street OPWC Loan liability at December 31, 2005, are as follows:

Year	Principal	Interest
2006	\$8,335	\$1,536
2007	16,921	2,822
2008	17,262	2,482
2009	17,609	2,134
2010	17,963	1,781
2011-2014	75,536	3,438
	\$153,626	\$14,193

Principal and interest requirements to retire the business-type activities bonds outstanding at December 31, 2005, are as follows:

Year	Sewer Refunding Bonds		Water Refunding Bonds	
	Principal	Interest	Principal	Interest
2006	\$155,000	\$12,600	\$245,000	\$178,008
2007	160,000	6,400	250,000	173,108
2008	0	0	255,000	167,732
2009	0	0	260,000	161,230
2010	0	0	270,000	153,690
2011-2015	0	0	1,480,000	624,525
2016-2020	0	0	1,785,000	316,226
2021	0	0	405,000	17,415
	\$315,000	\$19,000	\$4,950,000	\$1,791,934

Principal and interest requirements to retire the business-type activities loan liabilities at December 31, 2005, are as follows:

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Year	OPWC Loans					OWDA Loan	
	Sewer		Water Treatment	Water Glendale Tank		Sewer	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2006	\$10,212	\$7,759	\$10,000	\$9,916	\$4,701	\$8,457	\$8,140
2007	20,731	7,351	20,000	20,130	9,104	17,411	15,784
2008	21,148	6,934	20,000	20,534	8,700	18,095	15,100
2009	21,573	6,509	20,000	20,947	8,286	18,805	14,389
2010	22,007	6,075	20,000	21,368	7,866	19,544	13,650
2011-2015	116,848	23,562	100,000	113,457	32,710	109,858	56,115
2016-2020	129,072	11,336	50,000	125,328	21,141	133,197	32,775
2021-2025	41,294	829	0	138,439	7,726	93,144	6,443
	<u>\$382,885</u>	<u>\$70,355</u>	<u>\$240,000</u>	<u>\$470,119</u>	<u>\$100,234</u>	<u>\$418,511</u>	<u>\$162,396</u>

As of December 31, 2005, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$25,247,796. Pursuant to State statute, economic development revenue bonds were issued for \$2,820,000 in 1997 for Marietta College. The amount outstanding as of December 31, 2005, is \$1,170,000. The proceeds of the bonds are used by the College for energy management equipment. The bonds are to be repaid by the College and do not represent an obligation of the City.

NOTE 17 – NOTES PAYABLE

On June 21, 2005, the City rolled over its \$1,000,000 capital facilities bond anticipation note bearing a 3.05% interest rate for a new \$1,000,000 note with a 4.00% interest rate. During 2006, prior to the issuance of these financial statements, the City retired this note without issuing another note.

NOTE 18 - INTERFUND TRANSFERS AND BALANCES

Transfers are used to move revenues from the fund that Statute or budget requires to collect them to the fund that Statute or budget requires to expend them. The transfers made by the City in 2005 from the General Fund to the Court Special Revenue Fund for \$43,000 represented the City's required local share for grant funding. The Smith Trust Special Revenue Fund transferred \$162,543 to the General Fund for reimbursements made for the Bike Path and Aquatic Center projects. The Federal Emergency Management Agency Special Revenue Fund transferred the following amounts for reimbursements made for flood relief:

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

General Fund	\$501,114
Special Revenue Funds:	
Street	108,862
Cemetery	2,206
Enterprise Funds:	
Sewer	13,424
Water	22,193
Total	\$647,799

Interfund balances at year end consisted of services provided by the General Fund to the Enterprise Funds and unpaid advances made from the General Fund to the Marietta Harbor Fund.

	Receivables
Payables	General Fund
Marietta Harbor	
Capital Projects Fund	\$45,337
Sewer Enterprise Fund	37,735
Water Enterprise Fund	37,735
Total All Funds	\$120,807

NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS

A. The Buckeye Hills-Hocking Valley Regional Development District

The Buckeye Hills-Hocking Valley Regional Development District serves Washington, Athens, Hocking, Meigs, Monroe, Morgan, Noble, and Perry Counties. The District was created to foster a cooperative effort in regional planning, programming, and the implementing of regional plans and programs. The District is governed by a fifteen member board of directors. The board is composed of one member from the City of Marietta and one from the City of Athens, one elected official from each of the participating Counties, and the remaining members are private citizens appointed by the respective political bodies based upon population. The board has total control over budgeting, personnel, and all other financial matters. The District receives Title III monies directly. Currently, a portion of the Title III monies are distributed to the O'Neill Senior Citizens Center Corporation, a private not-for-profit corporation. The City contributed \$1,452 to the District during 2005. The continued existence of the District is not dependent on the City's continued participation and no equity interest exists.

B. The Community Action Program Corporation of Washington-Morgan Counties, Ohio

The Community Action Program Corporation of Washington-Morgan Counties, Ohio is operated as a non-profit organization formed to provide various programs in Washington and Morgan Counties. Currently, the Corporation administers the Family Service and Outreach Program, the Community Action Bus Line (CABL), the Child Development Program, the Senior Nutrition Program, Women, Infants and Children's Supplemental Nutrition Program, the Home Weatherization Assistance and Energy Program, the Job Training and Partnership Act Program, Housing and Urban Development Section 8 Existing Housing Voucher

City of Marietta, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Program, and various other State and federal programs. The Corporation is the direct recipient of the federal and State monies, except for monies passed thru to it from the City for the Housing and Urban Development Section 8 Existing Housing Voucher and Comprehensive Housing Improvement Programs. The Corporation is governed by a fifteen member council. The council is composed of the Mayor of the City of Marietta, the Mayor of the City of Belpre, two commissioners from Washington County, one Commissioner from Morgan County, five lower income representatives, and five private sector representatives from Washington and Morgan Counties selected by outreach workers. Currently, the Corporation, by contract with the City of Marietta and Washington and Morgan Counties, provides administrative services to these governments in specific programs. During 2005, the Corporation received \$5,000 in administrative fees from the City. The continued existence of the Corporation is not dependent on the City's continued participation and no equity interest exists.

C. The Wood, Washington, and Wirt Planning Commission

The Wood, Washington, and Wirt Planning Commission was created to fulfill the requirements governing urban transportation planning under the Federal Highway Administration and Urban Mass Transportation Administration program regulations in Wood, Washington, and Wirt Counties. The Commission was formed pursuant to West Virginia Code Sections and Ohio Revised Code Section 713.30 and serves as a form of a regional planning commission. The Commission is comprised of representatives from county and city governments and a cross section of members from the community appointed by the governmental units. Currently, the Commission has eight governmental representatives and the Mayor of the City of Marietta serves on the Commission. Revenues are derived from Federal Highway and Federal Transportation Administration Grants distributed by the States of Ohio and West Virginia. Local governments contribute a ten percent local match. During 2005, the City of Marietta contributed \$4,746. The continued existence of the Commission is not dependent on the City's continued participation and no equity interest exists.

NOTE 20 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2005.

B. Litigation

The City of Marietta is currently party to pending litigation seeking damages and/or injunctive relief as confirmed by the City Law Director. The possible outcome and effect on the financial statements cannot be determined at this time.

NOTE 21 – SUBSEQUENT EVENT

The City retired the \$1,000,000 capital facilities bond anticipation note bearing an interest rate of 4.00% on June 19, 2006.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2005**

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>Direct Award</i>			
Community Development Block Grants/Entitlement Grants	B-04-MC-39-0018	14.218	\$258,665
Community Development Block Grants/Entitlement Grants	B-05-MC-39-0018	14.218	<u>274,903</u>
Total Community Development Block Grants/Entitlement Grants			533,568
Shelter Plus Care		14.238	40,000
Section 8 Housing Choice Vouchers		14.871	<u>1,440,510</u>
Total Direct Awards			2,014,078
<i>Passed through the Ohio Department of Development</i>			
HOME Investment Partnerships Program	A-C-04-289-2	14.239	<u>345,112</u>
Total U.S. Department of Housing and Urban Development			2,359,190
U.S. DEPARTMENT OF JUSTICE			
<i>Passed through the Ohio Attorney General's Office</i>			
Victim Information Program	2005VAGENE329	16.575	19,490
Victim Information Program	2006VAGENE329	16.575	<u>6,693</u>
Total Victim Information Program Grant			26,183
<i>Passed through the Governor's Office of Criminal Justice Services</i>			
Edward Byrne Memorial Formula Grant Program	2004-DG-C01-7392	16.579	126,030
Violence Against Women Formula Grants	2004-WF-VA2-8424	16.588	<u>29,469</u>
Total U.S. Department of Justice			181,682
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	WAS-BKWY1-0.00	20.205	189,675
	WAS-CR4-0.610	20.205	113,670
	WAS-CR4-0.710	20.205	173,690
	WAS-CR4-1.12	20.205	<u>391,032</u>
Total Highway Planning and Construction			868,067
Total U.S. Department of Transportation			<u>868,067</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed through the Ohio Department of Health</i>			
Immunization Grant	84-2-001-2-AZ-05	93.268	<u>18,810</u>
Total U.S. Department of Health and Human Services			18,810
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through the Ohio Emergency Management Agency</i>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-1556-DR-167-47628	97.036	211,568
	FEMA-1580-DR-167-47628	97.036	<u>110,473</u>
Total Public Assistance Grants			322,041
Total U.S. Department of Homeland Security			<u>322,041</u>
Total Federal Awards Expenditures			<u><u>\$3,749,790</u></u>

The Notes to the Schedule of Federal Awards Expenditures are an integral part of this Schedule.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – SUBRECIPIENTS

The City passes through certain Federal assistance received from the United States Department of Housing and Urban Development to other governments or not-for-profit agencies (subrecipients). As described in Note A, the City records expenditures of Federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under OMB Circular A-133, the City is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

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

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

These loans are collateralized by mortgages on the property, business assets to include equipment, inventory and receivables, and personal assets. At December 31, 2005, the gross amount of loans outstanding under this program was \$79,741.

NOTE D – MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

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

City of Marietta
Washington County
308 Putnam Street
Marietta, Ohio 45750

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 Marietta, Washington County, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-004 through 2005-008.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We considered reportable condition 2005-008 listed above to be a material weakness. In a separate letter to the City's management dated November 9, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the City's basic 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 that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-001 through 2005-003. In a separate letter to the City's management dated November 9, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

November 9, 2006



Auditor of State Betty Montgomery

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

City of Marietta
Washington County
308 Putnam Street
Marietta, Ohio 45750

To the City Council:

Compliance

We have audited the compliance of the City of Marietta, Washington County, Ohio (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended December 31, 2005. 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 contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 2005-012 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding sub-recipient monitoring applying to its Section 8 Housing Choice Voucher and HOME Investment Partnership Program major federal programs. Also, as described in items 2005-010 and 2005-011 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding allowable costs applying to its Community Development Block Grants major program. Compliance with these requirements are necessary, in our opinion, for the City to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance describe in the preceding paragraph, the City of Marietta complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-009 and 2005-012. In a separate letter to the City's management dated November 9, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions should also be reported when the auditor performed no tests of controls to evaluate the effectiveness of the design and operation on internal controls (i.e., when the results of procedures we performed to obtain an understanding of the design of internal controls and whether they have been placed in operation indicated the absence of relevant policies and procedures or circumstances that caused us to conclude that policies and procedures are unlikely to be effective). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-009 through 2005-013.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2005-010 and 2005-012 listed above to be material weaknesses. We noted other matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated November 9, 2006.

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



Betty Montgomery
Auditor of State

November 9, 2006

CITY OF MARIETTA
WASHINGTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant, CFDA # 14.218 Section 8 Housing Choice Vouchers, CFDA # 14.871 HOME Investment Partnerships Program, CFDA #14.239
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states, in part, that money paid into a fund must be used for the purposes for which said fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At December 31, 2005, City's Community Development Fund had a cash balance of \$32,223 but had encumbrances of \$196,336 which resulted in a negative unencumbered fund balance of \$164,113 in that fund.

We recommend the City use monies within specific funds for only the purposes for which the particular fund has been established. When cash flow problems arise, monies should be advanced as directed in Auditor of State Bulletin 97-003.

Administration's Response:

This was a discrepancy that was addressed with Mr. Dick Sketel and Mr. Rick Carpenter during two meetings in February/March 2006. The numbers listed in the finding were the ones reported by the City Auditor for fiscal year ending 12-31-05. However, in completing some basic financial reports, it was determined that those numbers needed to be amended. The corrected figures showed that the 2006 Community Development Department budget needed to be cut by \$33,672 to properly balance. Those cuts were made, and a new budget was passed on April 25, 2006. Per verbal instructions of Mr. Rick Carpenter, the City Auditor was to do an amended certificate with the Washington County Auditor's office to reflect this new budget amount.

Auditor of State's Analysis

Richard Sketel, Chief Auditor, Charles Barga, Assistant Chief Auditor, and Rick Carpenter, Senior Audit Manager, with the Auditor of State's office met with City officials on March 14, 2006 concerning the 2006 budget for the Community Development department. This meeting did not have any impact on the City approving encumbrances that resulted in a negative fund balance at December 31, 2005.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Rev. Code Section 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code Section 5705.36(A)(3) requires that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

The following is a schedule of the significant funds in which actual receipts exceeded budgeted receipts as of December 31, 2005:

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-002 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.36 (Continued)

Fund	Budgeted Receipts	Actual Receipts	Variance
Permissive Tax	\$60,000	\$96,573	\$36,573
Emergency Rescue	8,000	19,417	11,417
Federal Emergency Management	303,361	564,136	260,775
State Route 7 TIF	0	1,179,040	1,179,040

Significant variances between actual receipts and budgeted receipts also existed at various times throughout the year.

The City did not obtain increased amended certificates for these funds but the City did appropriate, expend and/or encumber a portion of the excess revenues and therefore increased certificates should have been obtained. There were no negative fund balances as result of this activity.

We recommend the City implement controls to monitor budgeted versus actual receipts. When the City anticipates appropriating and expending additional revenue, an amended certificate of estimated resources should be obtained.

Administration's Response:

City officials declined to respond to this finding.

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits subdivisions or taxing authorities from expending money unless it has been appropriated.

At March 31, 2005 and carried forward until the end of the year, the following line items had expenditures and commitments which exceeded appropriations at the legal level of control by the following amounts:

Fund-Line Item	Appropriations plus Prior Year Encumbrances	Budgetary Expenditures	Over-expenditure
March 31, 2005			
Street Fund Street Maintenance /Repair- Transportation-Contractual Services (200-1550-6-30-23500)	\$483,601	\$1,081,056	\$597,455

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-003 (Continued)

Noncompliance Citation (Continued)

The practice of allowing expenditures to exceed appropriations could result in negative fund balances for the City.

We recommend the City Auditor compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the City Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The City Auditor should deny requests for payment when appropriations are not available. The budgetary variance noted above was a direct result of an audit adjustment requested by the Auditor of State for ODOT grant funding on-behalf payments not recorded by the City.

Administration's Response:

City officials declined to respond to this finding.

FINDING NUMBER 2005-004

Reportable Condition – Aquatic Center

During 2005 the City managed the activities of the aquatic center for the first time. The Recreation department implemented internal control procedures for the collection of aquatic center receipts and the ultimate deposit of those receipts. During our testing of these procedures we noted the following:

- The Daily Operation Report, which summarized daily activity for each cash register, was to be printed during close-out of drawer and signed by the cashier. For the Daily Operation Reports tested, 22% were not filed or printed and 29% were not signed by cashier.
- The Final Daily Operations Report, which summarized the Daily Operations Reports for all cash registers used daily, was to be signed by the pool manager. For the Final Daily Operation Reports tested, 25% were not on file and 35% were not signed by the pool manager.
- Deposit Records recorded the daily deposits made by each cashier and were to be signed by the cashier making the deposit. For the Deposit Records tested, 5% were not signed by the cashier making the deposit.
- The Register Report, which summarized the cash count, by denomination, of the cash drawer, the total dollar amount in the drawer, cash register tape total and any differences. The report was to be signed by the cashier, pool manager and a representative of the City Auditor's office. For the Register Reports tested, 5% were not filed or printed, 25% were not signed by a representative of the City Auditor's Office and 10% were not signed by the pool manager.
- For any adjustment or void on the cash register tape a "Void Slip" was to be prepared and signed by the pool manager and cashier. For 15% of the cash register tapes tested, void slips were not prepared consistently for the voids listed on the cash register tapes.
- The recreation department did not maintain an inventory for the concession items available for sale and there was not cost-of-goods performed.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-004 (Continued)

Reportable Condition – Aquatic Center (Continued)

The internal controls over the collection of aquatic center receipts were not being consistently applied as intended by management and could result in misappropriation of City assets due to theft and/or fraud.

We recommend the City take the following actions concerning aquatic center collections:

- The Daily Operation Reports should be properly completed, filed and signed by the cashier.
- The Final Daily Operation Reports should be properly completed, filed and signed by the manager.
- The Deposit Record should be properly completed, filed and signed by the cashier.
- The Register Reports should be properly completed, filed and signed by the cashier, manager and City Auditor's Office.
- A Void Slip should be properly completed, filed and signed by the cashier and manager documenting any adjustment or voided transaction.
- Enhance the internal controls over season passes by recording the receipt # and amount paid on each application.
- Enhance the effectiveness/usefulness of the spreadsheet prepared by the recreation clerk summarizing aquatic center receipts by including a breakdown of the pre-season and season pass collections, including the number of the corresponding City Auditor pay-in for amounts posted and providing evidence that reconciliation to the City Auditor's records occurred on a regular basis.
- Consider preparing a formal written policy which summarizes the City's procedures over the aquatic center. These policies and procedures could be distributed to the applicable parties and acknowledgement forms could be signed and kept on file evidencing individuals' awareness of the City's policies and procedures.
- The recreation department should maintain a perpetual inventory of all concession goods. In addition, a cost-of-goods calculation should be performed to ascertain the reasonableness of the rates being charged in the concession area.

Administration's Response:

Copies of the Daily Operations Report are not only in the Auditor's office but also second copies could have requested from the Recreation Department. Any time a Daily Report is not received, the Auditors office calls immediately to inform the Recreation Department. A form is filled out even if the pool is closed due to rain.

The remaining information was not reviewed with the State Auditor's office and a procedure formed until the end of the 2005 season a meeting with the city auditor, state auditors and recreation director. Our procedures were reviewed, most accepted with only a few recommendations. Those recommendations were implemented the following season 2006.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

Administration's Response: (Continued)

The deposit record was to be signed by the manager not each cashier. Deposit records are only done at the end of the day. The cashier's drawer/daily report is signed by each cashier and witnessed then it goes in the drop safe until the police officer arrives that night. The state auditor informed the recreation clerk-mid-season 2006 that she would like the receipt #'s on the passes. Season passes had already been completed by that point, but the recommendation is being implemented for future references.

Void slips have been an issue due to availability of managers. Register tapes were initialed at point of void by manager with explanation and witness of additional personnel. Void slips still need to re-addressed with possible alternative solutions for effectiveness. All other requests have already been implemented as requested.

Auditor of State's Analysis

The State Auditors met with Sharon Adams, City Auditor, Valerie Holley, City Treasurer, and Donna Medley, Recreation Director, on May 25, 2005 to discuss the Auditor's recommendations for the internal control procedures at the aquatic center. The City adopted some of the procedures for the 2005 pool season and intended to adopt other procedures during the 2006 pool season.

FINDING NUMBER 2005-005

Reportable Condition - Budgetary

All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The City Auditor's Office did not accurately post budgeted receipts to the accounting system. Variances existed between the amounts on the final certificate of estimated resources and the amounts posted to the accounting system as follows at December 31, 2005:

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-005 (Continued)

Reportable Condition – Budgetary (Continued)

Fund	Budgeted Receipts per the City's Accounting System	Budgeted Receipts per the Final Certificate of Estimated Resources	Variance
General	\$7,936,035	\$10,070,680	(\$2,134,645)
Street Maintenance and Repair	1,629,948	1,464,948	165,000
State Highway Improvement	40,000	46,000	(6,000)
Convention and Visitors Bureau	25,000	250,000	(225,000)
Food Service	51,000	53,680	(2,680)
Vital Statistics	22,740	54,950	(32,210)
Community Development	558,293	2,833,487	(2,275,194)
Marietta Housing Rehabilitation	225	87,972	(87,747)
Smith Trust	0	(5,518)	5,518
Victim Information Program	33,000	36,000	(3,000)
Federal Emergency Management	0	303,361	(303,361)
Municipal Court Computer System	72,000	60,000	12,000
Municipal Court Capital Improvement	120,000	180,000	(60,000)
Anthem Demutualization	0	1,000	(1,000)
Water Construction	820,490	390,490	430,000
Water Revenue	2,381,000	2,472,200	91,200
Sanitary Sewer	2,344,701	2,324,701	20,000

Significant variances also existed at the beginning of the year between the amounts on the first certificate of estimated resources and the amounts posted to the accounting system.

Because the information entered into the accounting system was inaccurate, the City management was unable to effectively monitor budget versus actual activity. Adjustments were made to the budgetary activity reported in the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual in order to accurately present the certified amount of estimated receipts.

We recommend the City Auditor post estimated receipts directly from the certificate of estimated resources and any amendments thereto. This would ensure useful comparisons of estimated to actual receipts to be made throughout the year and help indicate when an increased or decreased amended certificate should be obtained.

Administration's Response:

City officials declined to respond to this finding.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-006

Reportable Condition – City Budget

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements.

The City Auditor prepared the 2005 tax budget. After the City Council adopted the 2005 tax budget on July 1, 2004, the City Auditor filed the tax budget with the County Auditor on July 6, 2004. The 2005 tax budget filed with the County Budget Commission reflected the General Fund having total projected 2005 receipts of \$7,104,598.

The budgetary process at year end has the Assistant Safety Service Director project the expenditures for the coming year and the City Auditor project the receipts. At the end of 2004, the Assistant City Safety-Service Director prepared a 2005 Projected Revenue and Expense Schedule for the General Fund. The Schedule reflected projected revenues of \$7,595,090 and 2004 fund carryover of \$400,000 for a cumulative total of \$7,995,090 and projected expenses of \$9,902,835, therefore a shortfall of \$1,907,745.

The City finance committee reviewed the proposed 2005 Projected Revenue and Expense Schedule for the General Fund proposed by the Assistant Safety Service Director. The City Auditor used the 2005 Schedule prepared by the Assistant Safety Service Director to prepare the 2005 receipt budget amounts to be used to file the *Certificate of the Total Amount From All Sources Available For Expenditures, and Balances*. The City Auditor filed the Certificate with the County Auditor on January 3, 2005.

The *Certificate of the Total Amount From all Sources Available for Expenditures, and Balances* filed with the county budget commission reflected General Fund receipts of \$9,723,135, a \$2,618,537 increase in proposed General Fund receipts from the Tax Budget filed at the County on July 6, 2004 and a \$2,128,045 receipt increase of the General Fund receipt amount reflected on the 2005 Projected Revenue and Expense Schedule for the General Fund prepared by the Assistant Safety Service Director. The City Auditor did not provide any support as to which General Fund receipt accounts increased to justify the total increase in General Fund receipts of \$2,618,537 from the date the tax budget was filed in July 2004 to the date the certificate was filed in January 2005 or the \$2,218,045 increase from the schedule prepared by the Assistant Safety Service Director.

The City Council passed the General Fund permanent appropriations of \$9,902,835 on December 31, 2004 based on the General Fund projected receipts of \$9,723,135 attributed to the *Certificate of the Total Amount From all Sources Available for Expenditures, and Balances* filed December 31, 2004 to the County Budget Commission by the City Auditor and based on projected General Fund expenditures of \$9,902,835 proposed on the 2005 Projected Revenue and Expense Schedule for the General Fund prepared by the Assistant Safety Service Director, even though the schedule reflected a revenue shortfall \$1,907,745.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-006 (Continued)

Reportable Condition – City Budget (Continued)

The City Auditor should maintain documentation to support revenue projections used in the preparation of the *Certificate of the Total Amount From all Sources Available for Expenditures, and Balances*. The only documentation presented for audit was a schedule prepared by the Assistant Safety Service Director which reflected a General Fund revenue shortfall of \$1,907,745. The General Fund revenue projection of \$9,723,135 on the *Certificate of the Total Amount From all Sources Available for Expenditures, and Balances* filed by the City Auditor on December 31, 2004 contained a \$2,618,537 receipt increase from the tax budget filed on July 1, 2004 with the County Auditor that could not be supported.

We recommend the City maintain adequate documentation to support the receipt projections used in preparing the tax budget for the City. In addition, the Finance Committee should use skepticism in reviewing the receipt projections that are prepared by the Assistant City Safety-Service Director and City Auditor before approving the document for the City Auditor to submit to County Budget Commission. The City Council is responsible for the budgeted amounts that are filed by the City Auditor with the County Budget Commission.

Councilman, Tom Vukovic's Response:

The Assistant Safety Service Director and the City Auditor were both present at the December 16, 2004 Finance Committee Meeting. At that meeting the Assistant Safety Service Director presented the proposed General Fund budget. When questioned about the total revenues and carryover figures, both were in agreement with and supported those figures.

Auditor of State's Analysis

The City did not provide the audit staff with any documented support for all of the revenue sources that comprised the \$9,723,136 of General Fund revenue reflected on the *Certificate of the Total Amount From all Sources Available for Expenditures and Balances* filed with the County Auditor.

FINDING NUMBER 2005-007

Reportable Condition – Distribution of Income Tax Collections

The City Council passed Ordinance 147 on February 17, 2005 that outlined the procedure for distributing income tax collections. This Ordinance supports Codified ordinance 181.13 for allocation of funds. The procedure for distribution of income tax collections starts with defraying income tax operation costs, then .2% is to be distributed to fire station number 3 and fire station number 4, .2% is to be distributed to Street Construction Maintenance and Repair Fund, .1% is to be distributed to Capital Improvement Fund, .2% is to be distributed to the General Fund, the remaining balance of funds shall be used in accordance with appropriation ordinances adopted from time to time by Council and any portion of such balance which is not appropriated by Council shall be transferred to the Capital Improvement Fund.

For 2005, we encountered the following deficiencies with the distribution of income tax collections:

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-007 (Continued)

Reportable Condition – Distribution of Income Tax Collections (Continued)

- (1) We could not agree the distributions made by the City to the aforementioned funds at the percentages specified in the codified ordinance.
- (2) There was ambiguity in how to apply Codified ordinance 181.13 (a) –such part thereof as shall be necessary to defray the costs of collecting the taxes and the cost of administering and enforcing the provisions thereof. Past practice has been to deduct these costs before applying the percentages to the funds that are required to receive distribution. Codified ordinance 181.13 (b) through (e) indicates applying the percentage to total collections before defraying costs of income tax department
- (3) After the distribution is made to the funds required to receive income tax collections, Codified ordinance 181.13 (f) indicates the balance of funds shall be used in accordance with appropriation ordinances adopted from time to time by Council or transferred to the Capital Improvement Fund if not appropriated. During 2005, the Council did not pass any appropriation ordinance to outline the distribution of remaining funds. Therefore, after the distribution of .2% to Fire Levy Fund, .2% to Street Construction Maintenance and Repair Fund, .1% to Capital Improvement Fund, and .2% to General Fund, the remaining monies should have been distributed to the Capital Improvement Fund in lieu of City Council not passing any appropriation ordinance requiring the distribution to other City Funds.
- (4) The City Auditor distributed income tax funds to the General Fund, Street Light account within the General Fund, Cemetery Fund and State Route 7 TIF Fund without any support of an ordinance by Council. The City Auditor contends that prior year appropriation ordinances were passed to allow these funds to receive income tax distributions, but did not provide these prior year ordinances during the audit to support these funds receiving income tax distributions. Codified ordinance 181.13 (f), states “the balance of funds shall be used in accordance with appropriation ordinances adopted from time to time by Council”. Since the City Council passes an Ordinance each year to support codified ordinance 181.13, the newly passed ordinance would supercede any prior ordinances. Therefore, if Council wanted to distribute any income tax funds, other than the funds with required percents, it would have to pass an ordinance designating the fund and amount.

We recommend the City Council review Codified ordinance 181.13 and clarify the distribution process for the City Auditor’s office. The City Auditor should distribute income tax collections according to the latest ordinance and additional appropriation ordinances passed by Council.

Administration’s Response:

City officials declined to respond to this finding.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

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

FINDING NUMBER 2005-008

Material Weakness – On Behalf Programs

As outlined in Auditor of State Bulletin 2000-008, when a local government enters into an on-behalf-of program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made.

Once the grant is awarded or the application is approved, the fiscal officer must obtain an official certificate of estimated resources or an amended certificate of estimated resources for all or part of the grant or project, based on the expected cash disbursements to be made on the local government's behalf in the current fiscal year. Any on-behalf-of payments expected to be made in the next year should be reflected on the next year's certificate. The fiscal officer should record the appropriations in accordance with the terms and conditions of the grant or project agreement. In addition, prior to recording the appropriations, Ohio Rev. Code Section 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure.

The City was approved for Highway Planning and Construction grants through the Ohio Department of Transportation (ODOT) for Gilman Avenue. ODOT paid Shelly and Sands \$655,762.50 on-behalf-of the City for the contract work performed on these projects. Although the City's GAAP consultant did book a receipt and an equal disbursement as an adjustment to the year end financial statements, the City did not post the activity as memo receipts and memo disbursements to its cash basis accounting records and did not budget for this activity. Failure to appropriate for this activity resulted in actual expenditures exceeding appropriations in the contractual services line item of the Street Fund by \$597,455 at year end.

We recommend the City budget for and post on-behalf-of payments to their accounting system. Auditor of State Bulletin 2000-008 provides further guidance on this matter.

Administration's Response:

City officials declined to respond to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Allowable Costs/Cost Principles

Finding Number	2005-009
CFDA Title and Number	Disaster Grants - Public Assistance (Presidentially Declared Disasters), CFDA # 97.036
Federal Award Number / Year	FEMA-1580-DR-167-47628
Federal Agency	U.S. Department of Homeland Security
Pass-Through Agency	Ohio Emergency Management Agency

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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FINDING NUMBER 2005-009 (Continued)

1. Allowable Costs/Cost Principles (Continued)

Questioned Costs and Reportable Condition

OMB Circular A-87, Attachment A, paragraph C.1 states that to be allowable under Federal awards, costs must meet the following general criteria: supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period. Documentation requirements for salaries and wages, and time and effort distribution are described in OMB Circular A-87.

During 2005, the City was reimbursed by the Federal Emergency Management Agency twice in the amount of \$18,352 for expenditures paid to Waste Management of West Virginia for debris removal. This reimbursement was requested in duplication on Project Worksheets #1817 and # 2691. This resulted in \$18,352 in known questioned costs due to duplicate submission of expenditures.

We recommend the City develop control procedures to prevent and detect duplication in submitting expenditures for reimbursement by grantor agencies. We further recommend the City contact the Emergency Management Agency to determine the means of resolution for the aforementioned questioned costs.

Administration's Response:

There was an administrative error made, and actions have been initiated to correct the overpayment.

2. Allowable Costs/Cost Principles

Finding Number	2005-010
CFDA Title and Number	Community Development Block Grants/Entitlement Grants, CFDA # 14.218
Federal Award Number / Year	B-04-MC-39-0018 B-05-MC-39-0018
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	N/A – Direct Award

Questioned Costs and Material Weakness

OMB Circular A-87, Attachment B, paragraph 8(h)(4) states where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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FINDING NUMBER 2005-010 (Continued)

2. Allowable Costs/Cost Principles (Continued)

The City has established through an ordinance the use of pre-determined percentages to allocate payroll expenditures to various funds for all employees in the Community Development Department. These percentages were established under Ordinance 114 (80-81) for the Community Development Administrator and Ordinance 18 (88-89) for the Housing Specialist and Clerk. However, there is no formal documentation to support these percentages set by Ordinance. There has been no adjustment or evidence of re-evaluation of the percentages to allow the percentages to be supported by the level of effort on a particular project. The Community Development employees prepare timesheets but the timesheets do not show a breakdown of time spent in each area or program. The City charged Community Development Office direct salaries according to percentages set by a City Ordinance. In addition direct fringe benefits costs were charged according to percentages set by a City Ordinance. This results in direct salary and fringe benefit costs being charged to the Community Development Block Grant program without the benefit of any documentation to support the level of effort on any Community Development Block Grant programs.

Therefore, we have identified \$118,104 of known questioned costs for the Community Development Block Grant program.

We recommend the City develop control procedures to require the Community Development employees to document hours spent in each program area and charge the applicable fund for the related portion of direct salary and benefit costs. This would eliminate using the percentages established by Council in 1980 and 1986.

Administration's Response:

Regarding timesheets showing the breakdown of how Community Development staff members spend their time. The employees did break down their time according to the percentages set forth in Ordinance 114 (80-81) and Ordinance 18 (88-89). This breakdown did continue throughout 2005, and is still being followed today.

Regarding re-evaluation of time spent on Marehab vs. CDBG activities, the department has just completed this process, and Ordinance 119 (06-07) has had its first reading to address this situation. If passed, it will take effect January, 2007. Our time sheets will reflect these changes upon council approval.

Auditor of State's Analysis

The City intended to distribute Community Development salaries in the percentages as passed by Council. The Ordinances stipulated that 80% of the Community Development Director's salary be allocated to Community Development Fund, but 85% was allocated, 50% of the Community Development Clerk's salary be allocated to the Community Development Fund, but 61.5% was allocated and 35% of the Community Development Specialist's salary be allocated to the Community Development Fund, but 62% was allocated. These employees work exclusively on federal projects and therefore are paid with federal funds. The federal grantor agencies require the use of time and effort logs or a semi-annual certification to support payroll charges.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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3. Allowable Costs/Cost Principles

Finding Number	2005-011
CFDA Title and Number	Community Development Block Grants/Entitlement Grants, CFDA # 14.218
Federal Award Number / Year	B-04-MC-39-0018 B-05-MC-39-0018
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	N/A - Direct Award

Questioned Costs and Reportable Conditions

24 C.F.R. Section 570.200 (g) provides that no more than 20 percent of the sum of any grant, plus program income, shall be expended for planning and program administrative costs, as defined in Sections 570.205 and 570.206, respectively. Recipients of entitlement grants under subpart D of this part shall conform with this requirement by limiting the amount of CDBG funds obligated for planning plus administration during each program year to an amount no greater than 20 percent of the sum of its entitlement grant made for that program year (if any) plus the program income received by the recipient and its subrecipients (if any) during that program year.

During calendar year 2005, the City's Five Year Consolidated Plan 2005-2009, Action Plan 2005 reflects a 2005 entitlement grant of \$505,971 and estimated program income of \$4,999 for a cumulative 2005 amount of \$510,970. The eligible 20 percent allocated to planning and administration would be \$102,194. The City Community Development office IDIS system, report C04PR03 reflected program year 2005 planning and administration expenditures of \$129,199. The City ledgers reflected CDBG program 2005 planning and administration expenditures of \$139,824.

Therefore, we have identified \$27,005 of known questioned costs for the Community Development Block Grant program.

We recommend the City develop control procedures to ensure that all expenditures charged as planning and administrative charges to be within the 20% rule as outlined in 24 C.F.R. Section 570.200 (g).

Administration's Response:

For fiscal year 2005, our budget anticipated spending \$103,694 in planning and administration. Additional funds amounting to \$58,405 were anticipated in our program income area. Total funds available through CDBG for administration expenses equal \$104,702.80 (20% of 2005 grant + program income). When you add the total amount of Marehab funds (\$58,405) to this 20% figure, the total amount available for spending on admin expenses is \$145,564.80. The discrepancy lies in the fact that the department had not been drawing Marehab funds in a timely fashion. This has been corrected.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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FINDING NUMBER 2005-011

3. Allowable Costs/Cost Principles (Continued)

Auditor of State's Analysis

The Marehab funds (\$58,405) are not program income but actually part of the 2005 Community Development Grant monies the City expected to receive in 2005. The only program income the City had during 2005 was the interest income of \$4,999 in the Marehab Fund from outstanding revolving loans.

4. Subrecipient Monitoring

Finding Number	2005-012
CFDA Title and Number	A. Section 8 Housing Choice Vouchers, CFDA # 14.871 B. Shelter Plus Care, CFDA # 14.238 C. Home Investment Partnership Program, CFDA # 14.239
Federal Award Number / Year	2005
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	A. N/A - Direct Award B. N/A - Direct Award C. Ohio Department of Development

Noncompliance Citation and Material Weakness

OMB Circular A-133 § __.400 (d) states, in part, that a pass-through entity shall perform the following procedures for the federal awards it makes:

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of the information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that the performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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FINDING NUMBER 2005-012 (Continued)

4. Subrecipient Monitoring (Continued)

Noncompliance Citation and Material Weakness (Continued)

- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustments of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

The Community Action Program Corporation of Washington and Morgan Counties (CAC) administered the City's Section 8 Housing Choice Vouchers, Shelter Plus Care and Home Investment Partnership Program grants during fiscal year 2005. The City's Community Development Department and/or the Mayor's office provided no evidence that any monitoring was performed on the projects administered by the CAC.

We recommend the City develop procedures to ensure the grant requirements of the Section 8 Housing Choice Vouchers, Shelter Plus Care and Home Investment Partnership Program grants are followed by the City and any subrecipient the City contracts with to administer the program. The City should enter into a formal contract/agreement with its subrecipients each grant year in order to formalize the terms of the arrangement and clarify the responsibilities of each party. The subrecipient's duties and responsibilities should be specified in this contract/agreement and the City's subrecipient monitoring responsibilities should also be incorporated into this agreement. The City's responsibilities include but are not limited to the following:

- (1) Review and approval of the financial and performance reports submitted by the subrecipient;
- (2) Perform site visits at the subrecipient to review financial and programmatic records; and
- (3) Review of audits performed on the subrecipient and follow-up on any audit findings therein.

Administration's Response:

Unfortunately, there were no monitoring visits performed in 2005. However, this situation has been addressed, and there have been two monitoring visits done in 2006. We have also obtained guidance from HUD on how to best monitor our sub-recipients, and are in the process of creating the proper monitoring forms to complete during future visits.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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5. Reporting - Reconciliation of IDIS System to City's Ledgers

Finding Number	2005-013
CFDA Title and Number	Community Development Block Grants/Entitlement Grants, CFDA # 14.218
Federal Award Number / Year	B-04-MC-39-0018 B-05-MC-39-0018
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	N/A - Direct Award

Reportable Condition

The Community Development Office of the City of Marietta maintains financial reporting for U.S. Department of Housing and Urban Development grants on the IDIS system. This system is used for drawdown requests from the Department of HUD and reporting purposes. Also, the Community Development office submits financial information to the City Auditor's office to be recorded within the Community Development Fund on the city's accounting system.

There is no control procedure in the Community Development office to reconcile the financial amounts posted to the IDIS system to the amounts posted on the City's ledgers. As a result, financial posting errors could occur and go undetected. In addition, reports submitted to the Department of HUD could have errors embedded in the amounts.

We recommend the Community Development Office of the City of Marietta develop control procedures to reconcile the amounts reported on the IDIS system to the amounts reported on the City's ledgers on a periodic basis.

Administration's Response:

The Community Development Office has been doing monthly balancing exercises with the City Auditor's office for many years. In 2006, at the request of our City Council Finance Chairperson, we began balancing weekly with the City Auditor's office. The clerk and specialist would both sign off on the short budget reports from the Auditor's office once balancing was complete, and all discrepancies were investigated. The Community Development Department's ledger generally matches our IDIS account, and when those numbers match the City Auditor's short budget report, we consider ourselves in balance. To further stress this issue, in the future we will print IDIS report C04PR07, which will list all drawdowns by activity, and compare this with the City Auditor's short budget report to balance all three areas.

Auditor of State's Analysis

The City did not provide any written documentation to support any reconciliation between the City Auditor's ledgers and the IDIS system used by the Community Development department. As reflected in Finding 2005-011, the Community Development IDIS system and the City Auditor's ledgers differed by \$10,625 on the amount of Community Development expenditures during 2005.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 1901.11(B)(1)(a) – Finding for recovery for public money illegally expended against the Municipal Court Judge.	Yes	
2004-002	Ohio Rev. Code Section 5705.36(A)(3) – Actual receipts were significantly less than estimated indicating that reduced amended certificates should have been obtained.	Yes	
2004-003	OMB Cost Principles Circular A-87, Attachment B, Section 11 (h)(4), now Section 8 (h)(4) – No documentation supporting to support the pre-determined percentages established by ordinance to allocate payroll expenditures to various funds for all employees in the Community Development Department.	No	Not corrected; this citation is repeated in the Schedule of Findings at Finding 2005-010.

**CITY OF MARIETTA
WASHINGTON COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2006**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-001	The City intends to initiate procedures to alleviate noncompliance.		Sharon Adams, City Auditor
2005-002	The City intends to initiate procedures to alleviate noncompliance.		Sharon Adams, City Auditor
2005-003	The City intends to initiate procedures to alleviate noncompliance.		Sharon Adams, City Auditor
2005-004	The City intends to initiate procedures to alleviate reportable condition.		Sharon Adams, City Auditor
2005-005	The City intends to initiate procedures to alleviate reportable condition.		Sharon Adams, City Auditor
2005-006	The City intends to initiate procedures to alleviate reportable condition.		Sharon Adams, City Auditor
2005-007	The City intends to initiate procedures to alleviate reportable condition.		Sharon Adams, City Auditor
2005-008	The City intends to initiate procedures to alleviate material weakness.		Sharon Adams, City Auditor
2005-009	The City intends to initiate procedures to alleviate noncompliance and reportable condition.		Sharon Adams, City Auditor
2005-010	The City intends to initiate procedures to alleviate noncompliance and material weakness.		Sharon Adams, City Auditor
2005-011	The City intends to initiate procedures to alleviate noncompliance and reportable condition.		Sharon Adams, City Auditor
2005-012	The City intends to initiate procedures to alleviate noncompliance and material weakness.		Sharon Adams, City Auditor
2005-013	The City intends to initiate procedures to alleviate reportable condition.		Sharon Adams, City Auditor



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**CITY OF MARIETTA
WASHINGTON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 26, 2006**