



Dave Yost • Auditor of State

**CITY OF MARION
MARION COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Marion
Marion County
233 West Center Street
Marion, Ohio 44302

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 City of Marion, Marion County, Ohio (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Marion, Marion County, Ohio, as of December 31, 2009, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, and Street Construction, Maintenance, and Repair funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 25 to the financial statements, because of the continued regional recessionary economy and the City's reliance on income taxes as a significant funding source the City's General Fund balance has diminished significantly. Note 25 describes management's plans regarding this matter. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Dave Yost
Auditor of State

March 7, 2011

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED**

The discussion and analysis of the City of Marion's financial performance provides an overview of the City's financial activities for the year ended December 31, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2009 are as follows:

In total, the City's net assets decreased 7 percent from the prior year; 5 percent for governmental activities and 17 percent for business-type activities. A substantial portion of the decrease for governmental activities can be attributed to the continuing poor economy and the resulting \$1.3 million decrease in income tax revenue. The combination of a 6 percent decrease in revenues and 10 percent increase in expenses led to the 17 percent decrease in net assets for business-type activities.

General revenues made up 71 percent of the total revenues for governmental activities in 2009, and of this amount, 73 percent was provided through municipal income taxes, the most critical of the City's revenue sources. Program revenues, primarily user charges, make up 99 percent of the revenues for business-type activities.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2009. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED**

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

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

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2009 and 2008.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
<u>Assets</u>						
Current and Other Assets	\$15,976,428	\$17,849,468	\$14,845,816	\$14,955,946	\$30,822,244	\$32,805,414
Capital Assets, Net	56,354,908	56,813,758	36,896,225	38,328,329	93,251,133	95,142,087
Total Assets	72,331,336	74,663,226	51,742,041	53,284,275	124,073,377	127,947,501
<u>Liabilities</u>						
Current and Other Liabilities	4,069,524	6,943,646	11,907,089	9,199,293	15,976,613	16,142,939
Long-Term Liabilities	11,659,632	8,170,162	29,294,063	31,327,799	40,953,695	39,497,961
Total Liabilities	15,729,156	15,113,808	41,201,152	40,527,092	56,930,308	55,640,900
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	51,096,131	52,708,806	9,668,849	9,611,372	60,764,980	62,320,178
Restricted	4,849,252	5,143,920	0	0	4,849,252	5,143,920
Unrestricted	656,797	1,696,692	872,040	3,145,811	1,528,837	4,842,503
Total Net Assets	\$56,602,180	\$59,549,418	\$10,540,889	\$12,757,183	\$67,143,069	\$72,306,601

The above table denotes several significant changes for governmental activities, the most significant of which is the decrease in current and other assets. This is primarily the result of the continuing poor economic conditions and resulting decrease in the City's income tax revenue. This has required to City to spend cash carryover resources impacting both restricted and unrestricted net assets as the Street Construction, Maintenance, and Repair Fund, a restricted fund, also had a substantial drop in income tax resources. The other significant change for governmental activities is the decrease in current and other liabilities and the increase in long-term liabilities. This is due to the timing of the City's rollover of bond anticipation notes, recognized as a current liability in the prior year, however, as a long-term liability for 2009.

There were several significant changes for business-type activities as well. The decrease in net capital assets was simply due to annual depreciation. The increase in current and other liabilities resulted from a combination of an increase in contracts payable, generally related to the Franconia Avenue project, and from the issuance of new bond anticipation notes for sanitary sewer and storm water line construction on Blaine Avenue and Forest Lawn Drive.

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED**

Table 2 reflects the change in net assets for 2009 and 2008.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues						
Charges for Services	\$3,566,669	\$3,166,146	\$8,768,298	\$9,382,727	\$12,334,967	\$12,548,873
Operating Grants, Contributions, and Interest	3,177,575	4,099,975	0	0	3,177,575	4,099,975
Capital Grants, Contributions, and Interest	429,800	499,392	200,531	0	630,331	499,392
Total Program Revenues	7,174,044	7,765,513	8,968,829	9,382,727	16,142,873	17,148,240
General Revenues						
Property Taxes Levied for General Purposes	1,153,111	1,219,923	0	0	1,153,111	1,219,923
Property Taxes Levied for Police and Fire Pension	209,572	221,481	0	0	209,572	221,481
Payment in Lieu of Taxes	357,782	345,570	0	0	357,782	345,570
Municipal Income Taxes Levied for General Purposes	11,865,486	13,131,320	0	0	11,865,486	13,131,320
Municipal Income Taxes Levied for Street Construction, Maintenance, and Repair	526,254	592,725	0	0	526,254	592,725
Municipal Income Taxes Levied for Capital Improvements	277,777	288,150	0	0	277,777	288,150
Grants and Entitlements not Restricted to Specific Programs	2,313,482	2,472,533	0	0	2,313,482	2,472,533
Franchise Taxes	272,225	171,252	0	0	272,225	171,252
Interest	184,976	392,497	49,182	124,191	234,158	516,688
Other	388,661	273,752	30,643	90,551	419,304	364,303
Total General Revenues	17,549,326	19,109,203	79,825	214,742	17,629,151	19,323,945
Total Revenues	24,723,370	26,874,716	9,048,654	9,597,469	33,772,024	36,472,185
Program Expenses						
Security of Persons and Property						
Police	7,537,407	7,355,049	0	0	7,537,407	7,355,049
Fire	6,202,510	6,518,445	0	0	6,202,510	6,518,445
Other	272,940	296,923	0	0	272,940	296,923
Public Health	1,119,073	1,232,594	0	0	1,119,073	1,232,594
Leisure Time Activities	1,438,764	1,461,268	0	0	1,438,764	1,461,268
Community Environment	953,077	1,256,080	0	0	953,077	1,258,080
Transportation						
Transit	1,038,671	953,341	0	0	1,038,671	953,341
Other	5,149,912	5,170,585	0	0	5,149,912	5,170,585

(continued)

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED**

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
<u>Program Expenses</u> (continued)						
General Government						
Court	\$996,558	\$839,695	\$0	\$0	\$996,558	\$839,695
Other	3,125,248	4,493,935	0	0	3,125,248	4,493,935
Interest and Fiscal Charges	231,842	177,152	0	0	231,842	177,152
Sewer	0	0	6,408,838	5,864,515	6,408,838	5,864,515
Sanitation	0	0	2,413,915	2,200,037	2,413,915	2,200,037
Landfill	0	0	23,488	67,918	23,488	67,918
Storm Water	0	0	2,023,313	1,777,633	2,023,313	1,777,633
Total Expenses	<u>28,066,002</u>	<u>29,757,067</u>	<u>10,869,554</u>	<u>9,910,103</u>	<u>38,935,556</u>	<u>39,667,170</u>
Decrease in Net Assets Before Transfers	(3,342,632)	(2,882,351)	(1,820,900)	(312,634)	(5,163,532)	(3,194,985)
Transfers	395,394	273,379	(395,394)	(273,379)	0	0
Decrease in Net Assets	<u>(2,947,238)</u>	<u>(2,608,972)</u>	<u>(2,216,294)</u>	<u>(586,013)</u>	<u>(5,163,532)</u>	<u>(3,194,985)</u>
Net Assets Beginning of Year	59,549,418	62,158,390	12,757,183	13,343,196	72,306,601	75,501,586
Net Assets End of Year	<u>\$56,602,180</u>	<u>\$59,549,418</u>	<u>\$10,540,889</u>	<u>\$12,757,183</u>	<u>\$67,143,069</u>	<u>\$72,306,601</u>

The above table reflects the revenues and expenses for operating the City during 2009. For governmental activities, both program revenues and general revenues decreased from the prior year (8 percent overall). Charges for services program revenues increased from an increase in fees and charges; however, this increase did not offset the decrease in operating grants and contributions. The Street Construction, Maintenance, and Repair Fund saw a decrease in the gas tax and motor vehicle license distribution from the State and the City received fewer grant resources (for example in the community distress and transit programs). The most significant decrease is reflected in the drop in municipal income tax revenue as poor economic conditions continue to impact the City. This is also attributed to the decrease in income tax revenues.

In an effort to match the decrease in revenue, the City was able to decrease expenses \$1.7 million. While many program costs remained similar to the prior year, cuts were made in the areas of community environment and general government. The police and fire departments continue to be the largest governmental activities expense making up 49 percent of the City's total expenses.

Unfortunately, the costs of providing services exceeded 2009 revenue and led to cash carryover spending and the resulting decrease in net assets for governmental activities.

As is to be expected, 99 percent for the revenues for business type activities are received through charges for services provided to the users of the service. A combined decrease in revenues and increase in expenses resulted in an overall 17 percent decrease in net assets, and was primarily the result of Sewer Fund activity - charges for services was down and ongoing sanitary sewer line improvements caused much of the increase in expenses.

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED**

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Security of Persons and Property				
Police	\$7,537,407	\$7,355,049	\$7,226,518	\$7,176,948
Fire	6,202,510	6,518,445	4,977,730	5,381,267
Other	272,940	296,923	272,940	296,923
Public Health	1,119,073	1,232,594	452,687	316,235
Leisure Time Activities	1,438,764	1,461,268	1,216,277	1,144,996
Community Environment	953,077	1,258,080	453,548	652,177
Transportation				
Transit	1,038,671	953,341	451,361	59,096
Other	5,149,912	5,170,585	3,310,867	2,898,275
General Government				
Court	996,558	839,695	(134,472)	(415,897)
Other	3,125,248	4,493,935	2,432,660	4,304,382
Interest and Fiscal Charges	231,842	177,152	231,842	177,152
Total Expenses	<u>\$28,066,002</u>	<u>\$29,757,067</u>	<u>\$20,891,958</u>	<u>\$21,991,554</u>

While the dependence on general revenues (primarily municipal income taxes) to pay for the various services provided by the City is significant, program revenues in several of the programs provide for a considerable portion of the costs. For example, charges for services and operating grants restricted for public health purposes provided for almost 60 percent of the costs of this program. Various operating grants, generally the CDBG and CHIP programs, provided for 52 percent of the costs of the community environment program. Charges for services and various grants and contributions provided for 39 percent of transportation costs. The transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes. In addition, the City receives grants to assist in operating the public transit system. Lastly, court related fines and charges provided program revenues in excess of costs again in 2009.

**CITY OF MARION
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
UNAUDITED**

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Street, Construction, Maintenance, and Repair special revenue fund. The General Fund experienced a 56 percent decrease in fund balance from the prior year. Although expenditures remained very similar to the prior year, the significant decrease in income tax revenue resulted in cash carryover spending. Fund balance in the Street Construction, Maintenance, and Repair fund increased over 5 percent primarily due to the restoration of misallocated income taxes in the prior year.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

All of the City's enterprise funds experienced fairly sizable changes in net assets, with the Sewer, Sanitation, and Storm Water funds reflecting decreases. For the Sewer Fund, there was a decrease in revenues of almost 9 percent and an increase in expenses of 8 percent (generally due to ongoing sewer line improvements). Revenues remained similar to the prior year for the Sanitation Fund; however, there was an increase in expenses of almost 9 percent (personnel costs went up as did contracted services). Net assets in the Storm Water Fund decreased 12 percent. Revenues in this fund did not change substantially from the prior year; however, ongoing storm water line improvements led to an increase in contracted services. The only enterprise to see a positive change in net assets was the Landfill Fund and generally based on adjustments to postclosure costs.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. For revenues, changes from the original budget to the final budget as well as from the final budget to actual revenues were not significant. The same can be said for expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2009, was \$56,354,908 and \$36,896,225, respectively (net of accumulated depreciation). The most significant additions for governmental activities included a new roof for City Hall, various equipment (including a police records management system, generator, and computer system upgrade) new vehicles, and street improvements. The most significant additions for business-type activities were sewer and storm water line improvements. For further information regarding the City's capital assets, refer to Note 11 to the basic financial statements.

Debt - At December 31, 2009, the City had \$5,160,000 in bond anticipation notes payable from governmental activities and \$10,600,000 in bond anticipation notes payable from business-type activities. The City also had a number of long-term obligations outstanding including \$5,787,850 in general obligation bonds, \$757,312 in loans for an ODOT related project, \$1,327,573 in Ohio Public Works Commission loans, \$378,213 in capital loans, and \$20,124,330 in Ohio Water Development Authority loans. Of this debt, \$26,394,626 will be paid from business-type activities.

**CITY OF MARION
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
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In addition, the City's long-term obligations also include capital leases, compensated absences, the liability associated with the future payment of landfill postclosure costs. For further information regarding the City's debt, refer to Notes 17, 18, 19, and 20 to the basic financial statements.

CURRENT ISSUES

In 2009, the City suffered from a major loss in revenue due to jobs leaving the area. The loss of the Department of Youth Services in June 2009 had a major impact. At the beginning of 2010, we started to see companies in Marion working on expansion and retention. This is a positive step in the recovery process of our community. The Mayor has also been working on annexation. The Marion Plaza was annexed into the City this past summer.

The projected increase in healthcare costs for 2011 is about 3 percent. This is the lowest increase in healthcare in the past four years.

Starting in the spring of 2011, contract negotiations will begin again with both the Police Blue and Gold Units and Communication Workers Unit. AFSME and Steelworkers Units will open in the fall of 2011 and starting in 2012, the IAFF Unit will begin the bargaining process.

The City's software project is now 90 percent complete. The finance area went live in July 2009, income tax in November 2009, utility billing in December 2009, and payroll/human resources in January 2010. All employees are now on direct deposit. At the end of 2010, we will move to a completely paperless payroll. In the income tax area, employers are now able to submit W-2 information electronically and we are working toward online filing. The new software system has improved our workflow and efficiency; reduce errors and the chances of fraud by putting tighter audit controls in place.

In June 2010, the City issued \$4,845,000 in general obligation bonds to retire notes previously issued for various capital acquisition and construction projects. In addition, \$6,110,000 in general obligation bonds was issued to refund bonds previously issued to pay the long-term pension liability to the State and for various sewer and storm water projects. This refunding is anticipated to save the City \$300,000 over the next ten years. With this issue, the City also met with both Moody's and Standard and Poor to obtain a new bond rating. Both agencies improved the City's rating.

In July 2010, the City issued bond anticipation notes, in the amount of \$8.3 million for constructing and rehabilitating the sanitary sewer system and to construct a new Aquatic Center.

In October 2010, the City issued \$9,570,000 in bond anticipation notes to retire notes previously issued for roof repair and to purchase various equipment and a vehicle, sewer improvements, storm water improvements, and for constructing, equipping, and furnishing a central garage. It was a prime time to bond these projects due to the low interest rates.

REQUEST FOR INFORMATION

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

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$5,917,919	\$9,609,549	\$15,527,468
Accounts Receivable	1,774,743	4,926,718	6,701,461
Accrued Interest Receivable	51,530	0	51,530
Due from Other Governments	2,395,007	82,404	2,477,411
Municipal Income Taxes Receivable	2,686,682	0	2,686,682
Internal Balances	(89,210)	89,210	0
Prepaid Items	151,260	72,037	223,297
Materials and Supplies Inventory	102,223	65,898	168,121
Property Taxes Receivable	1,554,646	0	1,554,646
Payment in Lieu of Taxes Receivable	357,782	0	357,782
Notes Receivable	1,073,846	0	1,073,846
Nondepreciable Capital Assets	10,502,132	699,886	11,202,018
Depreciable Capital Assets, Net	45,852,776	36,196,339	82,049,115
Total Assets	72,331,336	51,742,041	124,073,377
<u>Liabilities</u>			
Accrued Wages Payable	421,726	74,365	496,091
Accounts Payable	197,626	82,327	279,953
Contracts Payable	737,302	692,605	1,429,907
Matured Compensated Absences Payable	34,388	0	34,388
Due to Other Governments	1,193,010	160,155	1,353,165
Retainage Payable	23,370	43,454	66,824
Accrued Interest Payable	120,744	254,183	374,927
Notes Payable	0	10,600,000	10,600,000
Deferred Revenue	1,341,358	0	1,341,358
Long-Term Liabilities			
Due Within One Year	6,040,554	2,275,511	8,316,065
Due in More Than One Year	5,619,078	27,018,552	32,637,630
Total Liabilities	15,729,156	41,201,152	56,930,308
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt Restricted for	51,096,131	9,668,849	60,764,980
Capital Projects	1,801,212	0	1,801,212
Debt Service	3,528	0	3,528
Street Construction, Maintenance, and Repair	1,033,640	0	1,033,640
Other Purposes	2,010,872	0	2,010,872
Unrestricted	656,797	872,040	1,528,837
Total Net Assets	\$56,602,180	\$10,540,889	\$67,143,069

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants Contributions, and Interest	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities</u>							
Security of Persons and Property							
Police	7,537,407	\$86,899	\$223,990	\$0	(\$7,226,518)	\$0	(\$7,226,518)
Fire	6,202,510	1,205,648	19,132	0	(4,977,730)	0	(4,977,730)
Other	272,940	0	0	0	(272,940)	0	(272,940)
Public Health	1,119,073	318,173	348,213	0	(452,687)	0	(452,687)
Leisure Time Activities	1,438,764	81,146	141,341	0	(1,216,277)	0	(1,216,277)
Community Environment	953,077	0	479,285	20,244	(453,548)	0	(453,548)
Transportation							
Transit	1,038,671	124,740	462,570	0	(451,361)	0	(451,361)
Other	5,149,912	93,834	1,335,655	409,556	(3,310,867)	0	(3,310,867)
General Government							
Court	996,558	1,131,030	0	0	134,472	0	134,472
Other	3,125,248	525,199	167,389	0	(2,432,660)	0	(2,432,660)
Interest and Fiscal Charges	231,842	0	0	0	(231,842)	0	(231,842)
Total Governmental Activities	28,066,002	3,566,669	3,177,575	429,800	(20,891,958)	0	(20,891,958)
<u>Business-Type Activities</u>							
Sewer	6,408,838	5,157,868	0	90,239	0	(1,160,731)	(1,160,731)
Sanitation	2,413,915	2,130,332	0	0	0	(283,583)	(283,583)
Landfill	23,488	346,431	0	0	0	322,943	322,943
Storm Water	2,023,313	1,133,667	0	110,292	0	(779,354)	(779,354)
Total Business-Type Activities	10,869,554	8,768,298	0	200,531	0	(1,900,725)	(1,900,725)
Total	\$38,935,556	\$12,334,967	\$3,177,575	\$630,331	(20,891,958)	(1,900,725)	(22,792,683)
<u>General Revenues</u>							
Property Taxes Levied for General Purposes				1,153,111	0		1,153,111
Property Taxes Levied for Police and Fire Pension				209,572	0		209,572
Payment in Lieu of Taxes				357,782	0		357,782
Municipal Income Taxes Levied for General Purposes				11,865,486	0		11,865,486
Municipal Income Taxes Levied for Street Construction, Maintenance, and Repair				526,254	0		526,254
Municipal Income Taxes Levied for Capital Improvements				277,777	0		277,777
Grants and Entitlements not Restricted to Specific Programs				2,313,482	0		2,313,482
Franchise Taxes				272,225	0		272,225
Interest				184,976	49,182		234,158
Other				388,661	30,643		419,304
Total General Revenues				17,549,326	79,825		17,629,151
Transfers				395,394	(395,394)		0
Total General Revenues and Transfers				17,944,720	(315,569)		17,629,151
Change in Net Assets				(2,947,238)	(2,216,294)		(5,163,532)
Net Assets Beginning of Year - Restated (Note3)				59,549,418	12,757,183		72,306,601
Net Assets End of Year				\$56,602,180	\$10,540,889		\$67,143,069

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS**

	General	Street Construction, Maintenance, and Repair	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,403,364	\$273,031	\$4,101,615	\$5,778,010
Accounts Receivable	1,769,846	0	4,897	1,774,743
Accrued Interest Receivable	51,530	0	0	51,530
Due from Other Governments	985,102	652,121	757,784	2,395,007
Municipal Income Taxes Receivable	2,525,482	80,600	80,600	2,686,682
Interfund Receivable	1,117,487	776,136	166,124	2,059,747
Prepaid Items	120,312	12,245	14,030	146,587
Materials and Supplies Inventory	23,105	0	2,533	25,638
Property Taxes Receivable	1,312,859	0	241,787	1,554,646
Payment in Lieu of Taxes Receivable	0	0	357,782	357,782
Notes Receivable	0	0	1,073,846	1,073,846
Total Assets	\$9,309,087	\$1,794,133	\$6,800,998	\$17,904,218
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$346,799	\$34,268	\$33,352	\$414,419
Accounts Payable	151,682	4,258	28,025	183,965
Contracts Payable	11,550	375,787	349,965	737,302
Matured Compensated Absences Payable	34,388	0	0	34,388
Due to Other Governments	953,456	47,819	181,586	1,182,861
Interfund Payable	1,003,095	19,515	1,136,419	2,159,029
Retainage Payable	0	15,658	7,712	23,370
Deferred Revenue	5,409,361	596,597	1,137,335	7,143,293
Total Liabilities	7,910,331	1,093,902	2,874,394	11,878,627
<u>Fund Balance</u>				
Reserved for Encumbrances	135,799	123,088	75,724	334,611
Reserved for Interfund Receivable	345,000	0	0	345,000
Reserved for Notes Receivable	0	0	1,041,575	1,041,575
Unreserved, Designated for Termination Benefits	0	0	713,644	713,644
Unreserved, Reported in General Fund	917,957	0	0	917,957
Special Revenue Funds	0	577,143	584,806	1,161,949
Debt Service Fund	0	0	3,528	3,528
Capital Projects Funds	0	0	1,507,327	1,507,327
Total Fund Balance	1,398,756	700,231	3,926,604	6,025,591
Total Liabilities and Fund Balance	\$9,309,087	\$1,794,133	\$6,800,998	\$17,904,218

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Total Governmental Fund Balance	\$6,025,591
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

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

Governmental Activities	56,354,908	
Internal Service Fund	(1,762,983)	
		54,591,925

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

Accounts Receivable	1,542,000	
Accrued Interest Receivable	33,851	
Due from Other Governments	1,784,989	
Municipal Income Taxes Receivable	1,724,974	
Payment in Lieu of Taxes Receivable	357,782	
Property Taxes Receivable	213,288	
Special Assessments Receivable	145,051	
		5,801,935

An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.	(106,267)
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(47,287)	
Notes Payable	(3,780,000)	
General Obligations Bonds Payable	(765,000)	
ODOT DRIP TIF Payable	(757,312)	
OPWC Loans Payable	(80,127)	
Capital Loans Payable	(378,213)	
Capital Leases Payable	(39,581)	
Compensated Absences Payable	(4,479,399)	
Compensated Absences Payable - Internal Service Fund	56,617	
		(10,270,302)

An internal service fund is used by management to charge the cost of engineering services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.	559,298
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Net Assets of Governmental Activities	\$56,602,180
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See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General	Street Construction, Maintenance, and Repair	Other Governmental	Total Governmental Funds
Revenues				
Property Taxes	\$1,114,270	\$0	\$202,349	\$1,316,619
Payment in Lieu of Taxes	0	0	345,570	345,570
Municipal Income Taxes	11,838,065	525,379	276,902	12,640,346
Charges for Services	1,654,468	3,504	169,441	1,827,413
Fees, Licenses, and Permits	344,140	13,600	6,078	363,818
Fines and Forfeitures	964,903	0	249,390	1,214,293
Intergovernmental	2,684,308	1,262,506	1,689,328	5,636,142
Interest	207,881	5,180	34,853	247,914
Other	268,898	2,611	179,789	451,298
Total Revenues	19,076,933	1,812,780	3,153,700	24,043,413
Expenditures				
Current:				
Security of Persons and Property				
Police	6,879,480	0	791,594	7,671,074
Fire	5,842,314	0	418,975	6,261,289
Other	272,940	0	0	272,940
Public Health	1,194,396	0	0	1,194,396
Leisure Time Activities	749,472	0	636,150	1,385,622
Community Environment	412,973	0	587,621	1,000,594
Transportation				
Transit	0	0	1,001,456	1,001,456
Other	303,991	2,489,224	772,513	3,565,728
General Government				
Court	816,545	0	157,430	973,975
Other	2,790,822	0	585,421	3,376,243
Debt Service:				
Principal Retirement	0	0	338,086	338,086
Interest and Fiscal Charges	0	0	226,984	226,984
Total Expenditures	19,262,933	2,489,224	5,516,230	27,268,387
Excess of Revenues Under Expenditures	(186,000)	(676,444)	(2,362,530)	(3,224,974)
Other Financing Sources (Uses)				
Loan Proceeds	0	0	3,780,000	3,780,000
Current Refunding	0	0	(1,580,000)	(1,580,000)
Sale of Capital Assets	0	0	3,650	3,650
Transfers In	0	738,346	962,869	1,701,215
Transfers Out	(1,625,246)	(25,229)	(50,740)	(1,701,215)
Total Other Financing Sources (Uses)	(1,625,246)	713,117	3,115,779	2,203,650
Changes in Fund Balance	(1,811,246)	36,673	753,249	(1,021,324)
Fund Balance Beginning of Year - Restated (Note 3)	3,210,002	663,558	3,173,355	7,046,915
Fund Balance (Deficit) End of Year	\$1,398,756	\$700,231	\$3,926,604	\$6,025,591

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Changes in Fund Balance - Total Governmental Funds (\$1,021,324)

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

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

Capital Outlay - Non-Depreciable Capital Assets	513,256	
Capital Outlay - Depreciable Capital Assets	1,584,898	
Capital Contributions	399,501	
Depreciation	(2,774,905)	
Depreciation - Internal Service Fund	<u>47,464</u>	
		(229,786)

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

Proceeds from Sale of Capital Assets	(3,650)	
Loss on Disposal of Capital Assets	<u>(177,950)</u>	
		(181,600)

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

Property Taxes	46,064	
Payment in Lieu of Taxes	12,212	
Municipal Income Taxes	29,171	
Charges for Services	407,535	
Fees, Licenses, and Permits	26,738	
Fines and Forfeitures	(903)	
Intergovernmental	193,882	
Interest	<u>(34,742)</u>	
		679,957

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

Notes Payable	1,580,000	
General Obligations Bond Payable	50,000	
ODOT DRIP TIF Payable	172,404	
OPWC Loans Payable	6,410	
Capital Loans Payable	71,287	
Capital Leases Payable	<u>37,985</u>	
		1,918,086

Note proceeds are other financing sources in the governmental funds but the issuance increases long-term liabilities on the statement of net assets. (3,780,000)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets. (4,858)

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

Compensated Absences Payable	(\$247,556)	
Compensated Absences Payable - Internal Service Fund	<u>2,619</u>	
		(244,937)

The internal service fund is used by management to charge the cost of engineering services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. (82,776)

Change in Net Assets of Governmental Activities (\$2,947,238)

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<u>Revenues</u>				
Property Taxes	\$1,301,093	\$1,124,277	\$1,114,270	(\$10,007)
Municipal Income Taxes	13,123,318	13,330,601	12,469,699	(860,902)
Charges for Services	1,683,600	1,361,995	1,609,611	247,616
Fees, Licenses, and Permits	256,216	262,203	344,140	81,937
Fines and Forfeitures	890,800	906,413	979,233	72,820
Intergovernmental	2,955,931	2,570,051	2,674,990	104,939
Interest	457,000	454,164	256,402	(197,762)
Other	18,350	207,248	259,049	51,801
Total Revenues	20,686,308	20,216,952	19,707,394	(509,558)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	7,235,278	6,952,257	6,908,576	43,681
Fire	6,292,729	5,996,952	5,899,850	97,102
Other	309,000	332,367	309,800	22,567
Public Health	1,305,108	1,279,471	1,205,271	74,200
Leisure Time Activities	874,429	797,445	763,379	34,066
Community Environment	415,650	396,270	412,973	(16,703)
Transportation				
Other	522,108	477,269	324,618	152,651
General Government				
Court	833,331	892,752	826,290	66,462
Other	3,070,389	3,048,062	2,942,631	105,431
Total Expenditures	20,858,022	20,172,845	19,593,388	579,457
Excess of Revenues Over (Under) Expenditures	(171,714)	44,107	114,006	69,899
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	210,800	32,459	7,620	(24,839)
Loan Proceeds	0	1,450,000	0	(1,450,000)
Advances In	0	9,069	528,000	518,931
Advances Out	0	0	(93,863)	(93,863)
Transfers Out	(1,048,346)	(908,486)	(1,049,241)	(140,755)
Total Other Financing Sources (Uses)	(837,546)	583,042	(607,484)	(1,190,526)
Changes in Fund Balance	(1,009,260)	627,149	(493,478)	(1,120,627)
Fund Balance Beginning of Year	1,834,751	1,834,751	1,834,751	0
Prior Year Encumbrances Appropriated	157,190	157,190	157,190	0
Fund Balance End of Year	\$982,681	\$2,619,090	\$1,498,463	(\$1,120,627)

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
STREET CONSTRUCTION, MAINTENANCE, AND REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Municipal Income Taxes	\$496,100	\$649,100	\$186,168	(\$462,932)
Charges for Services	0	5,000	3,504	(1,496)
Fees, Licenses, and Permits	17,800	17,800	13,600	(4,200)
Intergovernmental	1,482,000	1,329,000	1,261,848	(67,152)
Interest	10,000	10,000	5,180	(4,820)
Other	5,500	2,500	2,311	(189)
Total Revenues	2,011,400	2,013,400	1,472,611	(540,789)
<u>Expenditures</u>				
Current:				
Transportation	3,257,612	3,377,245	2,401,771	975,474
Excess of Revenues Under Expenditures	(1,246,212)	(1,363,845)	(929,160)	434,685
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	2,000	0	0	0
Transfers In	652,500	652,500	162,341	(490,159)
Transfers Out	(25,229)	(25,229)	(25,229)	0
Total Other Financing Sources (Uses)	629,271	627,271	137,112	(490,159)
Changes in Fund Balance	(616,941)	(736,574)	(792,048)	(55,474)
Fund Balance Beginning of Year	431,608	431,608	431,608	0
Prior Year Encumbrances Appropriated	490,241	490,241	490,241	0
Fund Balance End of Year	\$304,908	\$185,275	\$129,801	(\$55,474)

See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2009**

	Business-Type Activities					Governmental Activity
	Sewer	Sanitation	Landfill	Storm Water	Total Enterprise	Internal Service
<u>Assets</u>						
<u>Current Assets</u>						
Equity in Pooled Cash and Cash Equivalents	\$4,814,589	\$31,561	\$0	\$4,457,191	\$9,303,341	\$139,909
Accounts Receivable	1,984,295	2,386,113	0	556,310	4,926,718	0
Due from Other Governments	37,082	0	0	45,322	82,404	0
Interfund Receivable	0	0	152	0	152	116,339
Prepaid Items	54,200	13,248	4,589	0	72,037	4,673
Materials and Supplies Inventory	65,569	162	0	167	65,898	76,585
Total Current Assets	6,955,735	2,431,084	4,741	5,058,990	14,450,550	337,506
<u>Non-Current Assets</u>						
<u>Restricted Assets</u>						
Equity in Pooled Cash and Cash Equivalents	0	0	306,208	0	306,208	0
Nondepreciable Capital Assets	537,315	0	162,571	0	699,886	61,943
Depreciable Capital Assets, Net	22,897,287	582,098	0	12,716,954	36,196,339	1,701,040
Total Non-Current Assets	23,434,602	582,098	468,779	12,716,954	37,202,433	1,762,983
Total Assets	30,390,337	3,013,182	473,520	17,775,944	51,652,983	2,100,489
<u>Liabilities</u>						
<u>Current Liabilities</u>						
Accrued Wages Payable	48,693	24,395	0	1,277	74,365	7,307
Accounts Payable	33,428	35,356	7,853	5,690	82,327	13,661
Contracts Payable	296,504	18,275	0	377,826	692,605	0
Compensated Absences Payable	86,312	28,852	0	2,551	117,715	8,698
Due to Other Governments	80,673	69,552	124	9,806	160,155	10,149
Interfund Payable	152	11,773	0	5,284	17,209	0
Accrued Interest Payable	38,244	0	0	215,939	254,183	73,457
Notes Payable	5,216,150	0	0	5,383,850	10,600,000	1,380,000
Retainage Payable	19,554	0	0	23,900	43,454	0
General Obligation Bonds Payable	125,000	0	0	230,000	355,000	0
OWDA Loans Payable	1,402,694	0	160,130	0	1,562,824	0
OPWC Loans Payable	106,803	0	0	13,086	119,889	0
Capital Leases Payable	0	0	0	0	0	0
Postclosure Costs Payable	0	0	120,083	0	120,083	0
Total Current Liabilities	7,454,207	188,203	288,190	6,269,209	14,199,809	1,493,272
<u>Non-Current Liabilities</u>						
Compensated Absences Payable	345,536	92,410	0	9,231	447,177	47,919
General Obligation Bonds Payable	1,648,551	0	0	3,019,299	4,667,850	0
OWDA Loans Payable	17,648,842	0	912,664	0	18,561,506	0
OPWC Loans Payable	971,380	0	0	156,177	1,127,557	0
Postclosure Costs Payable	0	0	2,214,462	0	2,214,462	0
Total Non-Current Liabilities	20,614,309	92,410	3,127,126	3,184,707	27,018,552	47,919
Total Liabilities	28,068,516	280,613	3,415,316	9,453,916	41,218,361	1,541,191
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	2,025,788	582,098	162,571	6,898,392	9,668,849	382,983
Unrestricted (Deficit)	296,033	2,150,471	(3,104,367)	1,423,636	765,773	176,315
Total Net Assets (Deficit)	\$2,321,821	\$2,732,569	(\$2,941,796)	\$8,322,028	10,434,622	\$559,298

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

106,267

Net Assets of Business-Type Activities

\$10,540,889

**CITY OF MARION
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Business-Type Activities					Governmental Activities
	Sewer	Sanitation	Landfill	Storm Water	Total Enterprise	Internal Service
<u>Operating Revenues</u>						
Charges for Services	\$5,157,868	\$2,130,332	\$346,431	\$1,133,667	\$8,768,298	\$841,996
Other	11,038	8,097	0	11,508	30,643	2,483
Total Operating Revenues	<u>5,168,906</u>	<u>2,138,429</u>	<u>346,431</u>	<u>1,145,175</u>	<u>8,798,941</u>	<u>844,479</u>
<u>Operating Expenses</u>						
Personal Services	2,051,939	1,199,705	0	503,734	3,755,378	290,535
Travel and Transportation	301	0	0	0	301	0
Contractual Services	1,332,934	844,985	(30,754)	502,297	2,649,462	59,107
Materials and Supplies	507,631	64,506	2,554	86,331	661,022	435,547
Bad Debt	0	208,420	0	0	208,420	0
Depreciation	1,880,598	78,292	0	411,610	2,370,500	47,464
Other	1,338	792	0	0	2,130	0
Total Operating Expenses	<u>5,774,741</u>	<u>2,396,700</u>	<u>(28,200)</u>	<u>1,503,972</u>	<u>9,647,213</u>	<u>832,653</u>
Operating Income (Loss)	<u>(605,835)</u>	<u>(258,271)</u>	<u>374,631</u>	<u>(358,797)</u>	<u>(848,272)</u>	<u>11,826</u>
<u>Non-Operating Revenues (Expenses)</u>						
Interest Revenue	27,124	0	0	22,058	49,182	0
Interest Expense	(632,544)	(516)	(51,688)	(515,931)	(1,200,679)	(114,019)
Loss on Disposal of Capital Assets	0	0	0	(401,746)	(401,746)	0
Total Non-Operating Revenues (Expenses)	<u>(605,420)</u>	<u>(516)</u>	<u>(51,688)</u>	<u>(895,619)</u>	<u>(1,553,243)</u>	<u>(114,019)</u>
Income (Loss) before Contributions and Transfers	<u>(1,211,255)</u>	<u>(258,787)</u>	<u>322,943</u>	<u>(1,254,416)</u>	<u>(2,401,515)</u>	<u>(102,193)</u>
Capital Contributions	91,608	1,369	0	111,661	204,638	0
Transfers In	37,895	0	0	0	37,895	0
Transfers Out	0	0	0	(37,895)	(37,895)	0
Changes in Net Assets	<u>(1,081,752)</u>	<u>(257,418)</u>	<u>322,943</u>	<u>(1,180,650)</u>	<u>(2,196,877)</u>	<u>(102,193)</u>
Net Assets (Deficit) Beginning of Year	<u>3,403,573</u>	<u>2,989,987</u>	<u>(3,264,739)</u>	<u>9,502,678</u>		<u>661,491</u>
Net Assets (Deficit) End of Year	<u><u>\$2,321,821</u></u>	<u><u>\$2,732,569</u></u>	<u><u>(\$2,941,796)</u></u>	<u><u>\$8,322,028</u></u>		<u><u>\$559,298</u></u>

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

(19,417)

Change in Net Assets of Business-Type Activities

(\$2,216,294)

See Accompanying Notes to the Basic Financial Statements

CITY OF MARION
MARION COUNTY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Sewer	Sanitation	Landfill	Storm Water	Total	Internal Service
Increases (Decreases) in Cash and Cash Equivalents						
<u>Cash Flows from Operating Activities</u>						
Cash Received from Customers	\$5,127,910	\$1,665,073	\$346,279	\$1,109,870	\$8,249,132	\$799,242
Cash Payments for Personal Services	(2,053,300)	(1,189,877)	0	(505,213)	(3,748,390)	(287,903)
Cash Payments for Contractual Services	(1,329,616)	(771,715)	(72,431)	(683,782)	(2,857,544)	(64,342)
Cash Payments to Vendors	(409,978)	(63,811)	(300)	(11,644)	(485,733)	(416,690)
Cash Received from Other Revenues	11,038	5,368	0	11,508	27,914	2,483
Cash Payments for Other Expenses	(1,912)	(792)	0	0	(2,704)	0
Net Cash Provided by (Used for) Operating Activities	1,344,142	(355,754)	273,548	(79,261)	1,182,675	32,790
<u>Cash Flows from Noncapital Financing Activities</u>						
Transfers Out	0	0	0	(37,895)	(37,895)	0
<u>Cash Flows from Capital and Related Financing Activities</u>						
Grants	53,157	0	0	64,970	118,127	0
Principal Paid on Bond Anticipation Notes	(4,400,400)	0	0	(4,224,600)	(8,625,000)	(1,400,000)
Principal Paid on General Obligation Bonds	(120,000)	0	0	(220,000)	(340,000)	0
Principal Paid on OWDA Loans	(1,301,240)	0	(153,385)	0	(1,454,625)	0
Principal Paid on OPWC Loans	(106,803)	0	0	(13,086)	(119,889)	0
Lease Principal	0	(41,143)	0	0	(41,143)	0
Interest Paid on Bond Anticipation Notes	(168,356)	0	0	(164,282)	(332,638)	(51,494)
Interest Paid on General Obligation Bonds	(99,615)	0	0	(182,515)	(282,130)	0
Interest Paid on OWDA Loans	(368,220)	0	(51,688)	0	(419,908)	0
Lease Interest	0	(516)	0	0	(516)	0
Bond Anticipation Notes Issued	5,216,150	0	0	5,383,850	10,600,000	1,380,000
Acquisition of Capital Assets	(364,929)	0	0	(403,263)	(768,192)	0
Net Cash Provided by (Used for) Capital and Related Financing Activities	(1,660,256)	(41,659)	(205,073)	241,074	(1,665,914)	(71,494)
<u>Cash Flows from Investing Activities</u>						
Interest	27,124	0	0	22,058	49,182	0
Net Increase (Decrease) in Cash and Cash Equivalents	(288,990)	(397,413)	68,475	145,976	(471,952)	(38,704)
Cash and Cash Equivalents Beginning of Year	5,103,579	428,974	237,733	4,311,215	10,081,501	178,613
Cash and Cash Equivalents End of Year	\$4,814,589	\$31,561	\$306,208	\$4,457,191	\$9,609,549	\$139,909
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>						
Operating Income (Loss)	(\$605,835)	(\$258,271)	\$374,631	(\$358,797)	(\$848,272)	\$11,826
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>						
Allowance for Uncollectibles	0	208,420	0	0	208,420	0
Depreciation	1,880,598	78,292	0	411,610	2,370,500	47,464
Changes in Assets and Liabilities:						
Increase in Accounts Receivable	(32,751)	(467,988)	0	(23,797)	(524,536)	0
Decrease in Due from Other Governments	2,174	0	0	0	2,174	0
(Increase) Decrease in Interfund Receivable	619	0	(152)	0	467	(42,754)
(Increase) Decrease in Prepaid Items	(349)	(85)	(4,589)	4,560	(463)	(30)
Decrease in Materials and Supplies Inventory	12,047	142	0	146	12,335	10,214
Increase in Accrued Wages Payable	2,807	3,529	0	42	6,378	1,391
Increase (Decrease) in Accounts Payable	(67,801)	28,192	(656)	(1,734)	(41,999)	3,339
Increase (Decrease) in Contracts Payable	148,176	18,275	0	(98,219)	68,232	0
Increase (Decrease) in Due to Other Governments	(6,852)	31,323	(176)	1,155	25,450	(1,279)
Increase (Decrease) Interfund Payable	(423)	26	(619)	3,784	2,768	0
Decrease in Retainage Payable	0	0	0	(18,539)	(18,539)	0
Increase in Compensated Absences Payable	11,732	2,391	0	528	14,651	2,619
Decrease in Postclosure Costs Payable	0	0	(94,891)	0	(94,891)	0
Net Cash Provided by (Used for) Operating Activities	1,344,142	(355,754)	273,548	(79,261)	1,182,675	32,790
<u>Non-Cash Capital Financing Activities</u>						

In 2009, the Capital Improvements capital projects fund purchased capital assets and donated them to the Sewer, Sanitation, and Storm Water enterprise funds, in the amount of \$1,369, \$1,369, and \$1,369.

In 2009, the Storm Water enterprise fund purchased capital assets and donated them to the Sewer enterprise fund, in the amount of \$37,895.

At December 31, 2009 the Sewer and Storm Water enterprise funds had a receivable for grants related to capital assets, in the amount of \$37,082 and \$45,322, respectively.

In 2009, the Storm Water enterprise fund purchased capital assets and donated them to governmental activities, in the amount of \$399,501.

See Accompanying Notes to the Basic Financial Statements

CITY OF MARION
MARION COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2009

Assets

Equity in Pooled Cash and Cash Equivalents	\$75,668
Cash and Cash Equivalents in Segregated Accounts	<u>48,574</u>
Total Assets	<u>\$124,242</u>

Liabilities

Undistributed Assets	<u>\$124,242</u>
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See Accompanying Notes to the Basic Financial Statements

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

A. The City

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

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

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

B. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Marion in 2009.

The City participates in two insurance pools, the Ohio Municipal Joint Self-Insurance Pool and the Ohio Rural Water Association Workers' Compensation Group Rating Plan. These organizations are presented in Note 22 to the basic financial statements.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

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

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications; pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2009. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for employee payroll withholdings and deductions, for insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished, fines and fees collected by the Marion Municipal Court (excluding those due to the City of Marion), and fines collected by the City for traffic and parking violations distributed to other parties.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2009, but were levied to finance 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During 2009, investments included non-negotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. Non-negotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market price or current share price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2009.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2009 was \$207,881, which includes \$152,002 assigned from other City funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2009, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

J. Capital Assets

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Bond Discounts

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

O. Net Assets

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Fund Balance Reserves and Designations

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

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

Q. Operating Revenues and Expenses

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

R. Capital Contributions

Capital contributions arise from contributions from other funds.

S. Interfund Transactions

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

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

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

T. Estimates

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

For fiscal year 2009, the City of Marion has implemented Governmental Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in the economic resources measurement focus financial statements. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements and the framework for selecting those principles. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' (AICPA) auditing literature into the GASB's accounting and financial reporting literature. This guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and the participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any changes to the financial statements.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

B. Restatement of Net Assets

In prior years, the City misclassified several funds and has changed the accounting treatment applied to the receivable for payment in lieu of taxes. Based on guidance from GASB, this receivable is presently considered a non-exchange transaction and a one year receivable is being recorded. In prior years, this was considered an exchange transaction and the entire receivable was recognized in the initial year. These changes had the following effect on fund balance as previously reported.

	<u>General</u>	<u>Street Construction, Maintenance, and Repair</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Fund Balance at December 31, 2008	\$3,208,707	\$663,558	\$3,174,650	\$7,046,915
Change in Fund Structure	1,295	0	(1,295)	0
Adjusted Fund Balance at December 31, 2008	<u>\$3,210,002</u>	<u>\$663,558</u>	<u>\$3,173,355</u>	<u>\$7,046,915</u>

The restatement had the following effect on net assets:

Net Assets at December 31, 2008	<u>\$62,060,565</u>
Payment in Lieu of Taxes Receivable	<u>(2,511,147)</u>
Restated Net Assets at December 31, 2008	<u><u>\$59,549,418</u></u>

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2009, the following funds had deficit fund balances/net assets:

<u>Fund Type/Fund</u>	<u>Deficit</u>
Nonmajor Special Revenue Funds	
American Recovery and Reinvestment Act	\$88,048
Violence Against Women	13,724
School Resource Officer	4,536
Parks	6,555
Marion Drug/Gun Reduction	34,217
Police and Fire Pension	103,188
	(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)

Fund Type/Fund	Deficit
Nonmajor Special Revenue Funds (continued)	
CHIP	\$59,414
Neighborhood Stabilization	47,769
Marion Area Transit	182,795
Nonmajor Capital Projects Funds	
CDBG Formula	10,510
Quarry Park	7,557
Youth Center Improvement	4,378
Airport Improvement	121,579
Street Improvement	194,921
Enterprise Fund	
Landfill	2,941,796

The deficit fund balances in the special revenue and capital project funds resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

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

B. Compliance

The following funds had final appropriations in excess of estimated resources plus available balances for the year ended December 31, 2009.

Fund Type/Fund	Estimated Resources Plus Available Balances	Appropriations	Excess
Special Revenue Funds			
Court Computerization	\$118,309	\$121,601	\$3,292
Community Corrections	132,275	145,684	13,409
Probation Services	0	5,645	5,645
Police and Fire Pension	289,515	292,586	3,071
CHIP	523,514	564,971	41,457
Revolving Loans	163,247	195,265	32,018
Downtown Revitalization	604,425	621,460	17,035
Capital Projects Funds			
CDBG Formula	216,840	312,323	95,483
Capital Improvement	1,991,651	2,461,018	469,367
DRIP Infrastructure	1,055,922	1,311,712	255,790

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2009.

Fund Program/Department/Account	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
General Government - Other			
Mayor			
Capital Outlay	\$0	\$268	\$268
City Auditor			
Contractual Services	7,584	8,428	844
Service Director			
Personal Services	22,853	24,401	1,548
Contractual Services	350	461	111
Community Corrections			
Contractual Services	1,800	1,890	90
Materials and Supplies	1,300	1,385	85
City Hall			
Contractual Services	87,868	286,256	198,388
Material and Supplies	4,500	96,051	91,551
Capital Outlay	0	128	128
Engineering			
Other	0	70	70
Other General Government			
Contractual Services	111,147	474,417	363,270
General Government - Court			
Municipal Court Probation			
Materials and Supplies	0	186	186
Security of Persons and Property - Police			
Police Department			
Personal Services	5,636,121	5,677,521	41,400
Dispatchers			
Personal Services	829,307	832,810	3,503
Capital Outlay	0	2,746	2,746
Security of Persons and Property - Fire			
Fire Department			
Capital Outlay	0	5,688	5,688

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)

Fund Program/Department/Account	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund (continued)			
Security of Persons and Property - Other			
City/County Disaster Services			
Contractual Services	\$3,367	\$12,000	\$8,633
Street Lighting			
Contractual Services	297,000	297,800	800
Public Health Services			
Health - Administration			
Contractual Services	10,337	11,038	701
WIC			
Personal Services	339,717	347,663	7,946
Leisure Time Activities			
Recreation			
Personal Services	238,615	261,007	22,392
Other	0	595	595
Community Environment			
Planning and Economic Development			
Contractual Services	396,270	412,973	16,703
Transportation - Other			
Airport			
Capital Outlay	0	317	317
Transfers Out	908,486	1,049,241	140,755
Special Revenue Funds			
American Recovery and Reinvestment Act			
Security of Persons and Property - Police			
Police Department			
Capital Outlay	93,863	166,922	73,059
MMC Assistance			
General Government - Court			
Municipal Court			
Personal Services	1,000	20,467	19,467

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)

Fund Program/Department/Account	Appropriations	Expenditures Plus Encumbrances	Excess
Special Revenue Funds (continued)			
Court Computerization			
General Government - Court			
Municipal Court			
Contractual Services	\$30,563	\$34,084	\$3,521
Capital Outlay	20,000	52,362	32,362
Violence Against Women			
Security of Persons and Property - Police Police Department			
Contractual Services	4,579	18,078	13,499
Police Continuing Training			
Security of Persons and Property - Police Police Department			
Contractual Services	0	225	225
School Resource Officer			
Security of Persons and Property - Police Police Department			
Personal Services	88,000	88,827	827
Parks			
Leisure Time Activities			
Parks			
Other	0	224	224
Probation Services			
General Government - Other			
Other General Government			
Personal Services	1,270	1,280	10
Contractual Services	400	569	169
Police and Fire Pension			
Security of Persons and Property - Police Police Department			
Contractual Services	0	148,799	148,799
Security of Persons and Property - Fire Fire Department			
Contractual Services	0	148,799	148,799

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)

Fund Program/Department/Account	Appropriations	Expenditures Plus Encumbrances	Excess
Special Revenue Funds (continued)			
Community Distress			
Community Environment			
Community Distress Program			
Other	\$0	\$11	\$11
Marion Area Transit			
Transportation - Transit			
Marion Area Transit			
Personal Services	667,267	667,760	493
Contractual Services	157,486	239,689	82,203
Capital Projects Funds			
Capital Improvement			
Security of Persons and Property - Police			
Police Department			
Capital Outlay	1,120	370,736	369,616
Security of Persons and Property - Fire			
Fire Department			
Capital Outlay	8,300	310,724	302,424
General Government - Other			
City Hall			
Capital Outlay	17,480	80,732	63,252
Youth Center Improvement			
Leisure Time Activities			
Recreation			
Capital Outlay	3,200	6,235	3,035
Harding Center			
Debt Service			
Debt Retirement			
Interest and Fiscal Charges	25,500	42,210	16,710
Enterprise Funds			
Sewer			
Sewer Replacement			
Capital Outlay	171,237	296,665	125,428
Sewer Revenue			
Travel and Transportation	155	385	230
Capital Outlay	0	11,895	11,895

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (Continued)

Fund Program/Department/Account	Appropriations	Expenditures Plus Encumbrances	Excess
Enterprise Funds (continued)			
Sanitary Sewer Improvement			
Contractual Services	\$110,000	\$406,307	\$296,307
Capital Outlay	456,312	677,327	221,015
Sanitation			
Sanitation			
Other	600	792	192
Landfill			
Contractual Services	0	29,101	29,101
Landfill			
Debt Service			
Principal Retirement	150,121	153,385	3,264
Storm Water			
Storm Sewer			
Contractual Services	0	72,710	72,710
Capital Outlay	0	628,032	628,032
Storm Water Improvement			
Contractual Services	509,572	547,533	37,961
Debt Service			
Principal Retirement	4,447,685	4,457,686	10,001

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

At December 31, 2009, the Community Corrections, CHIP, Neighborhood Stabilization, and Marion Area Transit special revenue funds, and the CDBG Formula and Street Improvement capital project funds had deficit fund balances, in the amount of \$8,851, \$99,414, \$47,769, \$141,639, \$16,661, and \$111,885, respectively.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

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

	General	Street Construction , Maintenance , and Repair
GAAP Basis	(\$1,811,246)	\$36,673
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2008, Received in Cash 2009	1,402,056	142,255
Accrued 2009, Not Yet Received in Cash	(869,796)	(336,255)
Expenditure Accruals:		
Accrued 2008, Paid in Cash 2009	(1,632,363)	(266,543)
Accrued 2009, Not Yet Paid in Cash	1,559,303	497,305
Cash Adjustments:		
Unrecorded Activity 2008	173,687	(146,169)
Unrecorded Activity 2009	(98,227)	(749)
Prepaid Items	3,648	(79)
Materials and Supplies Inventory	2,211	0
Advances In	528,000	0
Advances Out	(93,863)	0
Transfers In	0	(576,005)
Transfer Out	576,005	0
Encumbrances Outstanding at Year End (Budget Basis)	(232,893)	(142,481)
Budget Basis	<u>(\$493,478)</u>	<u>(\$792,048)</u>

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,180,775 of the City's bank balance of \$9,159,890 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

As of December 31, 2009, the City had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Mortgage Corporation Notes	\$600,762	3/8/11
Federal Home Loan Mortgage Corporation Notes	1,150,633	1/15//12
Federal Home Loan Mortgage Corporation Notes	1,008,780	3/2/12
Federal National Mortgage Association Notes	1,002,810	2/17/12
Federal National Mortgage Association Notes	502,345	3/19/12
Federal National Mortgage Association Notes	403,624	3/18/14
Mutual Funds	2,869,180	7 days
STAR Ohio	212,811	61.2 days
Total Investments	<u>\$7,750,945</u>	

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

	Fair Value	Percentage of Portfolio
Federal Home Loan Mortgage Corporation	\$2,760,175	35.61%
Federal National Mortgage Association	1,908,779	24.63

NOTE 7 - RECEIVABLES

Receivables at December 31, 2009, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; interfund; property taxes; and notes. Receivables are considered collectible in full and within one year, except for municipal income taxes, interfund, property taxes, notes, and the allowance for uncollectibles related to utility services. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$1,041,575 will not be received within one year.

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant program. The notes have an annual interest rate of 2 percent to 3 percent and are to be repaid over periods ranging from ten to thirty years. A summary of the changes in notes receivable during 2009 follows:

	Balance December 31, 2008	New Loans	Repayments	Balance December 31, 2009
Special Revenue Fund				
CDBG Revolving Loan	\$711,974	\$0	\$2,025	\$709,949
Capital Projects Fund				
Harding Centre Loan	392,552	0	28,655	363,897
	\$1,104,526	\$0	\$30,680	\$1,073,846

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 7 - RECEIVABLES (Continued)

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

	Sewer	Sanitation	Storm Water	Total Enterprise Funds
Accounts Receivable	\$1,984,295	\$5,295,918	\$556,310	\$7,836,523
Less Allowance for Uncollectibles	0	2,909,805	0	2,909,805
Net Accounts Receivable	\$1,984,295	\$2,386,113	\$556,310	\$4,926,718

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$88,330
Personal Property Phase-Out	19,230
Local Government	716,169
Cigarette Tax	441
Estate Taxes	153,762
Department of Justice	2,777
Ohio Department of Public Safety	892
Beer and Liquor Permits	701
Miscellaneous	2,800
Total General Fund	985,102
Street Construction, Maintenance, and Repair	
Gasoline Tax	524,767
Motor Vehicle License Tax	127,054
Miscellaneous	300
Total Street Construction, Maintenance, and Repair	652,121
Total Major Funds	1,637,223
Nonmajor Funds	
Senior Citizens	
Ohio District 5 Agency on Aging	142
State Highway	
Gasoline Tax	41,316
	(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 7 - RECEIVABLES (Continued)

	Amount
Governmental Activities (continued)	
Nonmajor Funds (continued)	
Violence Against Women	
Violence Against Women	\$11,657
Community Corrections	
Community Based Corrections	50,000
Indigent Drivers Alcohol	
Indigent Drivers Alcohol	5,089
Police and Fire Pension	
Homestead and Rollback	15,977
Personal Property Phase-Out	3,375
Total Police and Fire Pension	19,352
CHIP Grant	
CHIP Grant	40,000
EMS	
EMS Grant	3,000
Neighborhood Stabilization	
Neighborhood Stabilization Grant	108,400
Marion Area Transit	
Rural Transit Grant	53,072
CDBG Formula Grant	
CDBG Formula Grant	15,973
Airport Improvement	
FAA Grant	112,867
Street Improvement	
Ohio Public Works Commission	294,854
DRIP Infrastructure	
Ohio Public Works Commission	2,062
Total Nonmajor Funds	757,784
Total Governmental Activities	\$2,395,007
Business Type Activities	
Major Fund	
Sewer	
Ohio Public Works Commission	37,082
Storm Water	
Ohio Public Works Commission	45,322
Total Business Type Activities	\$82,404

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 8 - MUNICIPAL INCOME TAXES

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

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2009 represent the collection of 2008 taxes. Real property taxes received in 2009 were levied after October 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2009 represent the collection of 2008 taxes. Public utility real and tangible personal property taxes received in 2009 became a lien on December 31, 2007, were levied after October 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2009, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2009 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder has been deferred.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 9 - PROPERTY TAXES (Continued)

The full tax rate applied to real property for the year ended December 31, 2009, per taxing district, per \$1,000 of assessed valuation are as follows:

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

The assessed values of real property, public utility property, and tangible personal property upon which 2009 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Agricultural/Residential	\$295,823,100
Commercial/Industrial	77,208,000
Public Utility Real	1,740,000
Public Utility Personal	21,169,000
Tangible Personal	850,760
Total	<u>\$396,790,860</u>

NOTE 10 - PAYMENT IN LIEU OF TAXES

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 11 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$8,703,039	\$0	\$0	\$8,703,039
Construction in Progress	1,581,454	513,256	(295,617)	1,799,093
Total Nondepreciable Capital Assets	10,284,493	513,256	(295,617)	10,502,132
Depreciable Capital Assets				
Land Improvements	287,301	0	0	287,301
Buildings and Building Improvements	24,953,037	64,352	0	25,017,389
Equipment	1,115,288	659,217	0	1,774,505
Vehicles	4,538,504	382,573	(95,306)	4,825,771
Streets	59,517,090	1,173,874	(553,274)	60,137,690
Total Depreciable Capital Assets	90,411,220	2,280,016	(648,580)	92,042,656
Less Accumulated Depreciation for				
Land Improvements	(142,647)	(11,691)	0	(154,338)
Buildings and Building Improvements	(3,780,936)	(372,530)	0	(4,153,466)
Equipment	(764,721)	(52,645)	0	(817,366)
Vehicles	(1,607,559)	(295,222)	56,488	(1,846,293)
Streets	(37,586,092)	(2,042,817)	410,492	(39,218,417)
Total Accumulated Depreciation	(43,881,955)	(2,774,905)	466,980	(46,189,880)
Total Depreciable Capital Assets, Net	46,529,265	(494,889)	(181,600)	45,852,776
Governmental Activities Capital Assets, Net	\$56,813,758	\$18,367	(\$477,217)	\$56,354,908

During 2009, governmental activities accepted contributions of capital assets from business-type activities, in the amount of \$399,501.

	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$699,886	\$0	\$0	\$699,886
Construction in Progress	0	105,490	(105,490)	0
Total Nondepreciable Capital Assets	699,886	105,490	(105,490)	699,886
Depreciable Capital Assets				
Land Improvements	96,191	0	0	96,191
Buildings	24,068,350	4,107	0	24,072,457
Equipment	4,552,324	23,948	0	4,576,272
Vehicles	1,492,468	75,790	0	1,568,258
Sewer and Storm Water Lines	28,913,715	1,130,807	(305,579)	29,738,943
Total Depreciable Capital Assets	59,123,048	1,234,652	(305,579)	60,052,121

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 11 - CAPITAL ASSETS (Continued)

	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009
Less Accumulated Depreciation for				
Land Improvements	(\$46,176)	(\$3,848)	\$0	(\$50,024)
Buildings	(5,083,693)	(1,578,888)	0	(6,662,581)
Equipment	(2,282,016)	(195,375)	0	(2,477,391)
Vehicles	(857,280)	(92,111)	0	(949,391)
Sewer and Storm Water Lines	(13,225,440)	(500,278)	9,323	(13,716,395)
Total Accumulated Depreciation	<u>(21,494,605)</u>	<u>(2,370,500)</u>	<u>9,323</u>	<u>(23,855,782)</u>
Total Depreciable Capital Assets, Net	<u>37,628,443</u>	<u>(1,135,848)</u>	<u>(296,256)</u>	<u>36,196,339</u>
Business-Type Activities Capital Assets, Net	<u>\$38,328,329</u>	<u>(\$1,030,358)</u>	<u>(\$401,746)</u>	<u>\$36,896,225</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$102,811
Security of Persons and Property - Fire	89,122
Public Health	291
Leisure Time Activities	41,419
Transportation - Transit	52,273
Transportation - Other	2,201,082
General Government - Court	10,047
General Government - Other	277,860
Total Depreciation Expense - Governmental Activities	<u><u>\$2,774,905</u></u>

NOTE 12 - INTERFUND RECEIVABLES/PAYABLES

Interfund balances at December 31, 2009, consisted of the following individual fund receivables and payables:

Due to General Fund from:	
Other Governmental	<u>\$1,117,487</u>
Due to Street Construction, Maintenance, and Repair from:	
General	<u>\$776,136</u>
Due to Other Governmental Funds from:	
General	<u>\$166,124</u>
Due to Landfill Fund from:	
Sewer	<u>\$152</u>

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 12 - INTERFUND RECEIVABLES/PAYABLES (Continued)

Due to Internal Service Fund from:

General	\$60,835
Street Construction, Maintenance, and Repair	19,515
Other Governmental	18,932
Sanitation	11,773
Storm Water	5,284
Total Internal Service Fund	\$116,339

The balance due to the General Fund consists of loans made to provide working capital for operations or projects. With the exception of \$345,000, all of these amounts are expected to be received within one year.

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

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

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

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

NOTE 13 - RISK MANAGEMENT

The City participates in the Ohio Municipal Joint Self-Insurance Pool, a public entity shared risk pool. The City pays an annual premium to the pool for various types of insurance coverage. Member municipalities agree to share in the coverage of losses and pay all premiums necessary for the specified insurance coverage. Upon withdrawal from the Pool, a participant is responsible for the payment of all liabilities accruing as a result of withdrawal. During 2009, the City had the following insurance coverage:

Type of Coverage	Coverage	Deductible
Property	\$45,084,901	\$1,000
General Liability		
Aggregate	5,000,000	5,000
Law Enforcement Liability	5,000,000	10,000
Emergency Medical Services Liability	5,000,000	5,000
Employee Benefits Liability	1,000,000	5,000
Automobile Liability	5,000,000	0
Uninsured Motorists	40,000	0

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 13 - RISK MANAGEMENT (Continued)

For 2009, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan. To maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the Plan. Each year, the City pays an enrollment fee to the Plan to cover the costs of administering the program.

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS 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. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs, and township police) and public safety divisions exist only within the traditional pension plan.

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2009, members in state and local classifications contributed 10 percent of covered payroll, public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2009 was 14 percent of covered payroll. For 2009, a portion of the City's contribution equal to 7 percent of covered payroll was allocated to fund the postemployment health care plan from January 1 through March 31 and 5.5 percent was allocated from April 1 through December 31. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008, and 2007 was \$1,109,328, 870,553, and \$620,597, respectively; 89 percent has been contributed for 2009 and 100 percent for 2008 and 2007. Contributions to the member-directed plan for 2009 were \$7,129 made by the City and \$5,092 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2009, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the postemployment health care plan. The City's required contribution for pension obligations for police and firefighters for the year ended December 31, 2009, was \$754,250 and \$751,111, for the year ended December 31, 2008, was \$735,953 and 753,345, and for the year ended December 31, 2007, was \$432,460 and \$542,613. For 2009, 83 percent has been contributed for both police and firefighters. The full amount has been contributed for 2008 and 2007.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

**CITY OF MARION
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS (Continued)

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

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

Funding Policy - The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2009, local government employers contributed 14 percent of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The amount of the employer contributions which was allocated to fund postemployment health care was 7 percent of covered payroll from January 1 through March 31, 2009, and 5.5 percent of covered payroll for the remainder of the year.

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

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2009, 2008, and 2007 was \$455,461, \$547,875, and \$418,946, respectively; 89 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

B. Police and Fire Pension Fund

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

OPF provides access to postretirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit, or is a spouse or eligible dependent child of such person.

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS (Continued)

OPF issues a stand-alone financial report that may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - OPF's postemployment healthcare plan was established and is administered as an Internal Revenue Code 115 trust for health care benefits and an Internal Revenue Code 401(h) account for Medicare Part B reimbursements, both within the defined benefit pension plan under the authority granted by the Ohio Revised Code to the OPF Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OPF. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 115 trust and 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2009, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of sections 115 and 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters for the year ended December 31, 2009, was \$239,585 and \$218,065, for the year ended December 31, 2008, was \$233,773 and \$218,713, and for the year ended December 31, 2007, was \$228,949 and \$212,327. For 2009, 83 percent has been contributed for both police and firefighters. The full amount has been contributed 2007 and 2006.

NOTE 16 - COMPENSATED ABSENCES

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

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

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

**CITY OF MARION
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 17 - NOTES PAYABLE

The changes in the City's notes payable during 2009 were as follows:

	Interest Rate	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009
<u>Governmental Activities</u>					
<u>General Obligation Bond Anticipation Notes</u>					
2008 Various Purpose	3.75%	2,850,000	0	2,850,000	0
<u>Business-Type Activities</u>					
<u>General Obligation Bond Anticipation Notes</u>					
2008 Various Purpose	3.75%	\$8,625,000	\$0	\$8,625,000	\$0
2009A Various Purpose	2.75	0	2,425,000	0	2,425,000
2009B Various Purpose	1.75	0	8,175,000	0	8,175,000
Total Business-Type Activities		\$8,625,000	\$10,600,000	\$8,625,000	\$10,600,000

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

On October 16, 2008, the City issued \$11,475,000 in bond anticipation notes; \$1,450,000 for roof repair and to purchase various equipment and a vehicle, \$4,400,400 for sewer improvements, \$4,224,600 for storm water improvements, and \$1,400,000 for constructing, equipping, and furnishing a central garage building. The notes had an interest rate of 3.75 percent and matured on October 15, 2009. The notes were paid from the Capital Improvements capital projects fund, the Sewer and Storm Water enterprise funds, and Central Garage internal service fund, in the amount of \$250,000, \$200,000, \$20,000, and nothing from the Central Garage internal service fund, respectively, as well as from the proceeds of new bond anticipation notes issued, in the amount of \$1,450,000, \$4,150,400, \$4,024,600, \$1,380,000 respectively.

On June 26, 2009, the City issued \$2,425,000 in bond anticipation notes; \$1,850,000 for sewer and storm water improvements on Blaine Avenue and \$575,000 for sewer and storm water improvements on Forest Lawn Boulevard. The notes had an interest rate of 2.75 percent and matured on June 23, 2010. The notes were paid from the Sewer and Storm Water enterprise funds. As of December 31, 2009, the City had unspent proceeds of \$1,065,750 and \$1,359,250 respectively.

On October 15, 2009, the City issued \$8,175,000 in bond anticipation notes to retire notes previously issued; \$4,150,400 for sewer improvements and \$4,024,600 for storm water improvements. The notes had an interest rate of 1.75 percent and matured on October 13, 2010. As of December 31, 2009, the City had unspent proceeds of \$976,899 and \$1,624,600 respectively.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2009, was as follows:

	Interest Rate	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009	Due Within One Year
<u>Governmental Activities</u>						
Bond Anticipation Notes						
2008 Various Purpose	2.75%	\$1,580,000	\$0	\$1,580,000	\$0	\$0
2009A Various Purpose	2.75	0	2,330,000	0	2,330,000	2,330,000
2009B Various Purpose	1.75	0	2,830,000	0	2,830,000	2,830,000
Total Bond Anticipation Notes		1,580,000	5,160,000	1,580,000	5,160,000	5,160,000
General Obligation Bonds						
2000 Police and Fire Pension (Original Amount \$1,145,000)	4.35-5.40	815,000	0	50,000	765,000	55,000
Other Long-Term Obligations						
ODOT DRIP TIF (Original Amount \$2,105,884)	0.00	929,716	0	172,404	757,312	180,273
OPWC Loan						
#CP10D Marion Williamsport Road Improvements (Original Amount \$128,202)	0.00	86,537	0	6,410	80,127	6,410
Capital Loans Payable		449,500	0	71,287	378,213	74,049
Capital Leases Payable		77,566	0	37,985	39,581	39,581
Compensated Absences Payable		4,231,843	312,501	64,945	4,479,399	525,241
Total Other Long-Term Obligations		5,775,162	312,501	353,031	5,734,632	825,554
Total Governmental Activities		\$8,170,162	\$5,472,501	\$1,983,031	\$11,659,632	\$6,040,554
<u>Business-Type Activities</u>						
General Obligation Bonds						
2000 Various Purpose (Original Amount \$7,585,000)	4.35-5.40%	\$5,395,000	\$0	\$340,000	\$5,055,000	\$355,000
Discount		(34,311)	0	(2,161)	(32,150)	0
Total General Obligation Bonds		5,360,689	0	337,839	5,022,850	355,000
Other Long-Term Obligations						
OWDA Loans						
#2335 Solids Handling (Original Amount \$2,290,314)	4.56	1,125,160	0	128,968	996,192	134,916
#2336 Landfill Closure (Original Amount \$2,720,754)	4.35	1,226,179	0	153,385	1,072,794	160,130

(continued)

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (Continued)

	Interest Rate	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009	Due Within One Year
<u>Business-Type Activities</u> (continued)						
#3397 WRRSP						
(Original Amount \$5,366,955)	1.50%	\$3,844,986	\$0	\$177,029	\$3,667,957	\$257,550
#3398 WWTP Upgrade						
(Original Amount \$20,784,201)	1.50	15,382,630	0	995,243	14,387,387	1,010,228
Total OWDA Loans		21,578,955	0	1,454,625	20,124,330	1,562,824
<u>OPWC Loans</u>						
#CP06G Mary St Sanitary Sewer/Storm Water Replacement						
(Original Amount \$29,232)	0.00	24,116	0	1,462	22,654	1,462
#CP10F Uncapher Ave/ Florence St Sanitary Sewer/ Storm Water Replacement						
(Original Amount \$268,990)	0.00	195,020	0	13,449	181,571	13,449
#CP16E Avondale Ave/ Catalina Dr Storm Water						
(Original Amount \$119,185)	0.00	77,471	0	5,960	71,511	5,960
#CP18A Industrial Depot Sanitary Sewer						
(Original Amount \$157,168)	0.00	57,628	0	10,478	47,150	10,478
#CP33E Water Pollution Control Upgrade						
(Original Amount \$1,070,800)	0.00	803,100	0	53,540	749,560	53,540
#CP522 Airport Industrial Park Sanitary Sewer						
(Original Amount \$700,000)	0.00	210,000	0	35,000	175,000	35,000
Total OPWC Loans		1,367,335	0	119,889	1,247,446	119,889
Capital Leases Payable		41,143	0	41,143	0	0
Compensated Absences Payable		550,241	19,652	5,001	564,892	117,715
Postclosure Costs Payable		2,429,436	0	94,891	2,334,545	120,083
Total Other Long-Term Obligations		25,967,110	19,652	1,715,549	24,271,213	1,920,511
Total Business-Type Activities		\$31,327,799	\$19,652	\$2,053,388	\$29,294,063	\$2,275,511

Bond Anticipation Notes

On June 26, 2008, the City issued bond anticipation notes, in the amount of \$1,580,000; \$700,000 to retire notes previously issued for constructing public infrastructure improvements related to constructing a portion of Wellness Drive, \$480,000 for constructing public infrastructure improvements related to constructing and extending Lakes Boulevard, and \$400,000 for improving Barks Road between Delaware Avenue and State Route 529. The notes had an interest rate of 2.75 percent and matured on June 26, 2009. The notes were paid from the Tax Incremental Financing capital projects fund.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (Continued)

As of December 31, 2009, the City had no unspent proceeds and \$400,000 was spent on items which were not capitalized.

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

As of December 31, 2009, the City had unspent proceeds of \$506,456.

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

As of December 31, 2009, the City had unspent proceeds of \$250,000.

General Obligation Bonds - On November 1, 2000, the City issued \$8,730,000 in unvoted general obligation bonds to pay the long-term liability to the Police and Fire Pension System which established the system, and to construct and replace sewer and storm water lines. The bonds were issued for a twenty year period with final maturity in 2020. The bonds will be paid from the Bond Retirement debt service fund and from the Sewer and Storm Water enterprise funds.

The bonds maturing on December 1, 2013, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2011	\$425,000
2012	445,000

The remaining principal, in the amount of \$470,000, will be paid at stated maturity on December 1, 2013.

The bonds maturing on December 1, 2016, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2014	\$495,000
2015	525,000

The remaining principal, in the amount of \$550,000, will be paid at stated maturity on December 1, 2016.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (Continued)

The bonds maturing on December 1, 2020, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2017	\$575,000
2018	610,000
2019	640,000

The remaining principal, in the amount of \$675,000, will be paid at stated maturity on December 1, 2020.

The bonds maturing on or after December 1, 2011, are subject to optional redemption prior to maturity, commencing December 1, 2010, either in whole or in part, in such order as the City shall determine, on any date on or after December 1, 2010, at a redemption price equal to the following percentages of principal redeemed plus accrued interest to the date of redemption:

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2010, through November 30, 2011	102%
December 1, 2011, through November 30, 2012	101
December 1, 2012, and thereafter	100

ODOT DRIP TIF - On May 11, 1998, the City entered into a loan agreement with the Ohio Department of Transportation for road improvements to a new industrial park. The loan was issued for a fifteen year period with final maturity in 2013. The loan will be paid from the Tax Incremental Financing capital projects fund.

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

Capital Leases

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

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (Continued)

OWDA Loans

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

OWDA monies spent on items which were not capitalized were \$3,667,957 in the Sewer enterprise fund and \$1,072,794 in the Landfill enterprise funds.

OPWC Loans

OPWC loans consist of money owed to the Ohio Public Works Commission for road improvements and for construction of sewer and storm water lines. OPWC loans will be paid from the Tax Incremental Financing capital projects fund and Sewer and Storm Water enterprise funds.

OWDA loans are payable solely from the gross revenues of the Sewer and Landfill enterprise funds and a portion of the OPWC loans are payable solely from the gross revenues of the Sewer and Storm Water enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the OWDA loans is \$20,124,330 and \$2,208,781, respectively, and total principal to be paid on the OPWC loans is \$1,247,446. Principal and interest paid in the Sewer enterprise fund for the current year was \$1,408,043 and \$368,220, \$153,385 and \$51,688 in the Landfill enterprise fund, and \$13,086 in the Storm Water enterprise fund. Total net revenues for the Sewer, Landfill, and Storm Water enterprise funds were \$1,274,763, \$374,631, and \$52,813 respectively.

The City's legal debt margin was \$34,522,388 at December 31, 2009.

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2009, were as follows:

Year	Governmental Activities			
	General Obligation Bonds		ODOT DRIP TIF	
	Principal	Interest	Principal	Interest
2010	\$55,000	\$40,250	\$180,273	\$20,898
2011	55,000	37,610	186,180	15,430
2012	60,000	34,805	192,280	9,783
2013	60,000	31,745	198,579	3,951
2014	65,000	28,685	0	0
2015-2019	380,000	87,810	0	0
2020	90,000	4,860	0	0
	\$765,000	\$265,765	\$757,312	\$50,062

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (Continued)

Year	OPWC Loan	Capital Loans	
	Principal	Principal	Interest
2010	\$6,410	\$74,049	\$13,395
2011	6,410	76,919	10,525
2012	6,410	79,899	7,545
2013	6,410	82,996	4,449
2014	6,410	64,350	1,233
2015-2019	32,051	0	0
2020-2022	16,026	0	0
	<u>\$80,127</u>	<u>\$378,213</u>	<u>\$37,147</u>

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2009, from the enterprise funds were as follows:

Year	Business-Type Activities				
	General Obligation Bonds		OWDA Loans		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
2010	\$355,000	\$265,980	\$1,562,824	\$354,943	\$119,889
2011	370,000	248,940	1,595,177	322,590	119,889
2012	385,000	230,070	1,628,412	289,355	119,889
2013	410,000	210,435	1,662,562	255,205	119,889
2014	430,000	189,525	1,697,660	220,107	114,649
2015-2019	2,520,000	578,275	7,494,498	648,166	372,048
2020-2024	585,000	31,590	4,483,197	118,415	280,461
2025	0	0	0	0	732
	<u>\$5,055,000</u>	<u>\$1,754,815</u>	<u>\$20,124,330</u>	<u>\$2,208,781</u>	<u>\$1,247,446</u>

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for vehicles. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments in 2009 were \$37,985 for governmental funds and \$41,143 for enterprise funds.

	Governmental Activities	Business-Type Activities
Vehicles	\$149,000	\$405,334
Less Accumulated Depreciation	(19,866)	(135,112)
Total	\$129,134	\$270,222

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2009.

	Governmental Activities	
Year	Principal	Interest
2010	\$39,581	\$1,030

NOTE 20 - LANDFILL POSTCLOSURE COSTS

State and federal laws and regulations require the City to perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The City stopped accepting waste at its landfill in 1995. The \$2,334,545 reported as landfill postclosure costs at December 31, 2009, represents the estimated costs of maintenance and monitoring through 2025. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The December 31, 2009, liability decreased from the prior year by \$94,891.

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 21 - INTERFUND TRANSFERS

During 2009, the following transfers were made:

		General	Street Construction, Maintenance, and Repair	Other Governmental	Storm Water	Total
Governmental Activities						
Transfers In	Street Construction, Maintenance, and Repair	\$738,346	\$0	\$0	\$0	\$738,346
	Other Governmental	886,900	25,229	50,740	0	962,869
	Total Governmental Activities	1,625,246	25,229	50,740	0	1,701,215
	Business - Type Activities					
	Sewer	0	0	0	37,895	37,895
	Total	<u>\$1,625,246</u>	<u>\$25,229</u>	<u>\$50,740</u>	<u>\$37,895</u>	<u>\$1,739,110</u>

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

The Street Construction, Maintenance, and Repair special revenue fund made transfers for street construction related to a tax incremental financing project.

Other governmental funds made transfers primarily to pay for construction costs.

The Storm Water enterprise fund transferred capital assets to the Sewer enterprise fund, in the amount of \$37,895.

NOTE 22 - INSURANCE POOLS

A. Ohio Municipal Joint Self-Insurance Pool

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

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 22 - INSURANCE POOLS

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

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

NOTE 23 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2009, to December 31, 2009, the City received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 24 - SUBSEQUENT EVENT

On June 22, 2010, the City issued 4,845,000 in general obligation bonds to retire notes previously issued for constructing a portion of Wellness Drive, constructing public infrastructure improvements related to extending Lakes Boulevard, improving Barks Road between Delaware Avenue and State Route 529, sewer and storm water improvements on Blaine Avenue, storm water improvements on Forest Lawn Boulevard, and acquiring and installing a comprehensive financial management software system. The City also issued new general obligation bonds, in the amount of \$6,110,000, to retire general obligation bonds previously issued to pay the long-term liability to the Police and Fire Pension System and to construct and replace sewer and storm water lines. The bonds have interest rates ranging from 2.00 to 3.75 percent and mature on June 22, 2020.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

NOTE 24 - SUBSEQUENT EVENT (Continued)

On July 15, 2010, the City issued \$8,300,000 in bond anticipation notes for constructing and rehabilitating the sanitary sewer system and constructing a new Aquatic Center. The bond anticipation notes have an interest rate of 1.25 percent and mature on July 21, 2011.

On October 12, 2010, the City issued \$9,570,000 in general obligation bonds to retire notes previously issued for roof repair and to purchase various equipment and a vehicle, sewer improvements, storm water improvements, and for constructing, equipping, and furnishing a central garage building. The bonds have interest rates ranging from 1.75 percent to 4.00 percent and mature on October 12, 2030.

NOTE 25 – MANAGEMENT’S PLAN

The City is experiencing certain financial difficulties. For 2009, the City's General Fund decreased by \$1,811,246, or approximately 56%. This decrease can primarily be attributed to a decrease in income tax revenues, affected by the continued regional recessionary economy.

The City has implemented a plan to address the negative financial trend. City Council adopted a de-appropriation of approximately \$800,000 for 2011, which includes closing most city offices on Fridays. The City Council is also reviewing the budget on a monthly basis. The administration is working on a plan for another de-appropriation of at least \$720,000. This will be accomplished either through negotiations for concessions or with layoffs. The city needs at least \$1.5 million in revenue a month to cover the current appropriated expenses. In reviewing the first two months of the year we are currently missing that by \$340,876. With the additional local government funding cut projections it is evident that a plan must be in place. The layoffs or additional de-appropriation will take place by May 1, 2011. Projected revenues and expenditures for 2011 indicate these financial difficulties may continue. We will continue to monitor any changes and make adjustments as necessary.

As of February 28, 2011 the carrying value of the City's bank account was \$512,779.

**CITY OF MARION
MARION COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2009**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Health</i>			
Special Supplemental Nutrition Program for Women, Infants and Children	51-2-001-1-CL-09	10.557	\$ 287,574
TOTAL U.S. DEPARTMENT OF AGRICULTURE			287,574
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant - State's Program '07 Formula	A-F-07-142-1	14.228	90,263
Community Development Block Grant - State's Program '08 Formula	A-F-08-142-1	14.228	131,158
Community Development Block Grant - State's Program '09 Formula	A-F-09-142-1	14.228	859
Community Development Block Grant - State's Program '06 Downtown	A-T-06-142-1	14.228	37,664
Community Development Block Grant-State's Program '06 Distress	A-F-06-142-1	14.228	17,142
Community Development Block Grant- State's Program '08 (CHIP)	A-C-08-142-1	14.228	82,437
Community Development Block Grant- State's Program '08 (Neighborhood Stabilization Program Grants)	A-Z-08-142-1	14.228	62,894
Total Community Development Block Grant State's Program			422,417
HOME Investment Partnership Program	A-C-08-142-2	14.239	169,074
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			591,491
U.S. DEPARTMENT OF JUSTICE			
<i>Direct:</i>			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program - Grants to Units of Local Government	2009-DJ-BX-0476	16.804	13,034
ARRA- Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	2009-SB-B9-0366	16.580	37,308
<i>Passed Through the Ohio Office of Criminal Justice Services</i>			
Violence Against Women Formula Grant	2005-WF-VA2-8110A	16.588	17,162
Violence Against Women Formula Grant	2008-WF-VA2-8110	16.588	42,838
Total Violence Against Women Formula Grant			60,000
Edward Byrne Memorial Justice Assistance Grant - School Resource Officer Grant	2005-JG-BO1-6412A	16.738	32,800
TOTAL U.S. DEPARTMENT OF JUSTICE			143,142
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	AIP-3-39-0050-1808	20.106	7,885
<i>Passed Through Ohio Department of Transportation</i>			
Rural Transit Grant Program Operating Projects	RPT-4051-029-091	20.509	303,879
Rural Transit Grant Inter-City Project	RPT-4051-029-093	20.509	6,522
Rural Transit Grant Program Capital Projects	RPT-0051-027-082	20.509	93,470
Rural Transit Grant Program Operating Projects	RPT-4051-027-081	20.509	42,178
Rural Transit Grant Program Operating Projects	RPT-4051-027-083	20.509	1,010
ARRA-Rural Transit Grant Program Capital	RPT-0051-001-093	20.509	56,473
Total Rural Transit Grant Program			503,532
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			511,417
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Ohio Department of Aging</i>			
Special Programs for the Aging-Title III, Part B Grants for Supportive Services and Senior Centers	N/A	93.044	33,952
Special Programs for the Aging-Title III, Part E Grants for Supportive Services and Senior Centers	N/A	93.044	4,250
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			38,202
Total Federal Awards Expenditures			\$ 1,571,826

The accompanying notes are an integral part of this schedule.

**CITY OF MARION
MARION COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FORMULA GRANTS FOR OTHER THAN URBANIZED AREAS

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

NOTE C - MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marion, Marion County, Ohio (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2009-001 and 2009-005 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2009-002, 2009-004, 2009-007 and 2009-008 described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-002 through 2009-006, and 2009-008.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated March 7, 2011.

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

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



Dave Yost
Auditor of State

March 7, 2011



Dave Yost • Auditor of State

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

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

To the City Council:

Compliance

We have audited the compliance of the City of Marion, Marion County, Ohio (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City's major federal programs for the year ended December 31, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Marion complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists these instances as Findings 2009-009 through 2009-012.

Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as item 2009-009 through 2009-011 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2009-012 to be a significant deficiency.

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

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated March 7, 2011.

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



Dave Yost
Auditor of State

March 7, 2011

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

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

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-001

Financial Monitoring – Material Weakness

The City did not have an effective control process established over the financial activity recorded on the City's ledgers or reported on their financial report, including financial and budgetary statements, footnotes, required supplementary information as well as additional supplemental information reported. In addition to the lack of controls at the financial statement level, there is also a lack of controls at the review at the departmental level which is key to the recording and reporting of the City's activity.

This was evident by examining various reclassification entries to revenues and expenditures that occurred during the City's GAAP conversion process; if not for these reclassification entries there likely would have been material misstatements remaining in the financial statements.

Officials have varying duties and responsibilities. City Council members are responsible for adopting an annual budget, monitoring actual revenues and expenditures, and adopting amendments to the budget as the need arises. Other elected officials and department managers have input to the budgeting process, and are ultimately responsible for operating within their respective departmental budgets, and are held accountable for funds appropriated to their departments. Certain individuals are also responsible for monitoring financial activity related to federal grants.

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

The City implemented a new integrated windows-based accounting system in July 2009. Members of City Council, other elected officials, and department managers were provided training for the new system.

City Council Members, other elected officials, and department managers responsible for financial monitoring and monitoring of federal grant financial activity were provided with an accounting system login/password which provided online access to reports in the City's accounting system. The intent was that these individuals would access the online accounting system to obtain periodic system-generated reports, including budget and actual financial activity for monitoring purposes.

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

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

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-001 (Continued)

Financial Monitoring – Material Weakness (Continued)

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

Officials Response:

The City of Marion agrees that additional trainings will be beneficial in the assistance of reports and financial monitoring by the respective Council Members, Department Heads, and Administration. The Auditor's office will continue to conduct one-on-one trainings and to formulate new group trainings specifically designed to assist in the preparation of the reports and inquiries.

Training materials have been previously provided and will be given new emphasis during the additional training sessions.

FINDING NUMBER 2009-002

Bank Reconciliations – Material Non-Compliance/Significant Deficiency

Ohio Admin. Code Section 117-2-01(D)(4) states, in part, when designing a public office's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls. There should be segregation of duties among those with access to the accounting system and those officials with access to the bank accounts.

At the City, the City Auditor's office is responsible for posting transactions and maintaining the accounting system; the City Treasurer is responsible for performing the bank reconciliations.

The City implemented a new accounting system in July 2009.

- Since that time, the City's monthly bank reconciliations have not been completed in a timely fashion. For example, we noted the December 2009 bank reconciliation was not completed until June 2010.
- The untimeliness of preparation of the bank reconciliations at least partially contributed to the delay in timely preparation of the City's 2009 annual financial statements as described in Finding 2009-003.
- While a limited degree of interaction in the reconciliation process is expected, it appeared as though the City Auditor's office and the City Treasurer jointly performed bank reconciliations on an ongoing basis. At least partially contributing to this were the conditions described in Finding 2009-001. However this effectively circumvents segregation of duties designed to mitigate opportunities for misappropriation of assets.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-002 (Continued)

Bank Reconciliations – Material Non-Compliance/Significant Deficiency (Continued)

Timely bank reconciliations allow management to ensure the completeness and accuracy of transactions recorded in the accounting records and reported on the financial statements. Reconciling items, other than outstanding checks and deposits, indicate transactions have been posted to the bank account but not in the accounting system, or vice versa. Ideally the reconciled bank balance should agree to the total cash-basis fund balances on the accounting system. A bank to book reconciliation should be performed monthly and reconciling items should be adjusted at the time they are identified. Unreconciled bank accounts present the opportunity for errors or misappropriation of assets to go undetected by management.

The City should implement effective review procedures over the reconciliation process. An internal control procedure some entities have implemented is to provide a copy of the monthly bank reconciliation to the Finance Committee, for monitoring purposes.

We recommend that bank reconciliations be prepared timely and reconciling items be resolved in a timely fashion. We also recommend the City observe adequate segregation of duties in the bank reconciliation process; employees of the City Auditor's office should maintain accounting transactions and the City Treasurer should autonomously perform the bank reconciliations. Finally, the Finance Committee should routinely receive and review a copy of the monthly bank reconciliations as a monitoring procedure.

Officials Response:

During 2009, with the new software system being reconciled with the old system, along with staffing shortages which each department faced, bank reconciliations did not get completed each month on time. This was an issue that has been resolved and is now done timely.

Currently the process for bank reconciliations is that the treasurer completes the reconciled checks and deposits to ensure they are properly accounted for, compiles the bank statements and interest, and completes a spreadsheet which tells the ending balance for all funds the City of Marion has on deposit whether in long term investments or other types of depository accounts. The ending balance is then provided to the Auditor's Office and a cross fund report is ran and compared to the balance. If there are discrepancies, then it is first determined if it is a cleared or uncleared check, posted or unposted deposit, electronic funds transfer or wire that was not posted.

The City of Marion submits that for each month, there are end of the month transactions that affect the balances between the Treasurer's office and the Auditor's office.

Since the implementation of the new software, new procedures have been developed to assist in the timely reconciliation. The City of Marion works with the Treasurer in identifying any discrepancies within the bank reconciliation process, but this is not done in tandem with each other. The Treasurer provides the current balances, then they are compared to the systems reports with cash balances, and then differences are identified and verified by both the Treasurer and Auditor.

Past practice has been maintained with respect to reconciliations with one exception: the Treasurer is no longer balancing to the Auditor's Office but balancing against the bank statements.

The City of Marion will provide monthly bank reconciliations to the Finance Committee of Council.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING 2009-003

Annual Financial Statements – Material Non-Compliance

Ohio Rev. Code Section 117.38 requires GAAP-basis entities to file annual financial statements with the Auditor of State within 150 days of fiscal year end. Any public office which does not file the report by the required date may be assessed a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred fifty dollars. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

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

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

The City was granted an extension for the 2009 annual report extending the filing deadline to July 31, 2010. However a substantially complete annual financial report was not filed until October 18, 2010. Additionally, the City has not published a notice that the 2009 annual report is available for public inspection.

We recommend the City file its annual report by the required date and publish a notice that the annual report is available for public inspection.

Officials Response:

The City of Marion began with the State of Ohio Auditors Office for a complete GAAP report in 2008. This was the first time the comprehensive financial documents were prepared in this manner. We are consistently working to ensure more timely compilation and currently reviewing the possibility of asking the Auditor of State to prepare a CAFR for the City of Marion. The City of Marion is set to complete the 2010 financial statements on time and will publish a notice that they are available for inspection.

FINDING NUMBER 2009-004

Investments – Significant Deficiency/Material Non-Compliance

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

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-004 (Continued)

Investments – Significant Deficiency/Material Non-Compliance (Continued)

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

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

Ohio Rev. Code Section 135.22 (B) states to enhance the background and working knowledge of treasurers in investments, cash management, and ethics, the treasurer of state shall provide annual continuing education programs for treasurers. A treasurer annually shall complete the continuing education programs described in this section, unless the treasurer annually provides a notice of exemption described in division (E) of this section.

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

- At December 31, 2009, the City had \$100,000 of negotiable certificates of deposit held by financial institutions that were not domiciled (i.e. had a presence) in Ohio, resulting in investments in ineligible public depositories.
- The City has purchased certificates of deposit totaling \$998,000 that have maturity dates ranging from 14 to 31 months, beyond the statutory one year limitation.
- Although all of the City's deposits and investments were held in the City's name, as of December 31, 2009 we noted that none of those deposits or investments were specifically held in the City Treasurer's name.
- The City could not provide evidence that the City Treasurer attended the required investment training in 2009, nor did the City Treasurer provide a notice of exemption.

We recommend the City utilize eligible financial institutions located in the State of Ohio for its public depositories. The City should only purchase investments in certificates of deposit that have a maturity date of not more than one year from the date of deposit, and investments should be registered in the name of the Marion City Treasurer. We further recommend the City Treasurer attend the required training or provide a notice of exemption if applicable.

Officials Response:

The City of Marion investments are all in the City of Marion's possession and copies of the statements are sent to several people by name. The investments should not be held in any specific person's name but rather to the attention of the City Treasurer. All accounts have been changed to read City of Marion
ATTN: City Treasurer

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-004 (Continued)

Investments – Significant Deficiency/Material Non-Compliance (Continued)

The City of Marion has established the following in Marion City Code Section 123(C):

(C) In accordance with R.C. § 731.56, Council hereby determines that whenever there are moneys in the treasury of the municipality which will not be required to be used by the municipality for a period of six months or more, such moneys may in lieu of being deposited in a bank, be invested in obligations of the municipality as well as in those additional obligations which are authorized by the provisions of R.C. § 731.56, and such investments shall be made in accordance with R.C. §§ 731.56 and 731.57 and the provisions of the section.

The certificate of deposit monies were not required by the Municipality for a period of six months or more and, therefore, were invested beyond the one year limit.

Past practice invested the City of Marion's money in out-of-state investments for a period of five years. In 2010, the City of Marion was able to, without penalty, dissolve the out-of-state investments and did so.

The Treasurer has attended all CPIM trainings except for 2009. It was an oversight that the treasurer did not attend. In 2010, the City Auditor and Deputy Auditor along with the Treasurer completed the required CPIM trainings.

All funds on deposit in short or long term investments are held in the State of Ohio with the approval of the City of Marion's Investment Board consisting of the Auditor, Treasurer, Mayor, and Law Director.

FINDING NUMBER 2009-005

Income Tax Allocation – Material Weakness/Material Non-Compliance

The City has a 1% unvoted income tax and a 0.75% voted income tax. Allocation of both of these income taxes is governed by the following respective authoritative sources.

City Codified Ordinance Section 193.14, approved by Council on July 14, 2003 and Ordinance 2003-60, state, in part, that income taxes for the 1% unvoted portion of the City's total 1.75% income tax shall be allocated in the following manner:

- Debt Service Fund – a variable amount not to exceed \$180,000 annually, to cover the annual general obligation debt retirement and bond registrar expenses.
- 5% to the Street, Construction, Maintenance and Repair Fund for items such as street and alley construction, reconstruction, maintenance, repairs, resurfacing, seal treatment, traffic control devices, sidewalks, curbs, gutters, sewers, drains, and other improvements.
- 5% to the Street, Construction, Maintenance and Repair Fund for street resurfacing projects.
- The remaining balance of any monies received shall be credited to the General Fund.

Ordinance 1988-58, approved by voters, states that the allocation for the 0.75% voted portion of the City's total 1.75% income tax should be allocated in the following manner:

- 0.275 or 36.67% for the police department.
- 0.375 or 50.00% for the fire department.
- 0.05 or 6.67% for street and alley improvements
- 0.05 or 6.66% for the capital improvement fund

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-005 (Continued)

Income Tax Allocation – Material Weakness/Material Non-Compliance (Continued)

We noted in 2009, income tax receipts were not allocated in accordance with the above ordinances. We also noted the beginning fund balances for 2009 were incorrect, since 2008 income tax receipts were not allocated in accordance with the above ordinances.

We also noted that the City is not separately accounting for the amounts to be allocated for the police and fire within the general fund.

The above non-compliance resulted in material adjustments to the City's funds, as follows (increase/(decrease)):

Fund	Adjustment Amount
General Fund	(\$941,667)
SCMR Fund	776,136
Capital Improvement Fund	165,531

The City has adjusted the financial statements and accounting records for these amounts.

The City has obtained a formal opinion from its Law Director, confirming the allocations described above. We recommend the City follow the allocations above, as well as consider establishing separate special revenue funds or otherwise separately accounting for the portions of the 0.75% income tax obligated to the police and fire departments within the general fund.

Officials Response:

The City of Marion is in agreement that there have been material adjustments made to the City's funds with respect to the allocation of Municipal Income Tax. Past practice was followed and questioned since 2008. The City of Marion is pleased for a final determination of the allocation and has made the corrections in the 2011 year. However, there will be the same issue for 2010, as there was not a final determination until 2011.

The City of Marion contends that the gross revenue of Municipal Income Tax should not be allocated without the respective allocations for the Income Tax refunds and Revenue Sharing the General Fund currently bears.

The gross proceeds will be allocated beginning 2011 with the refunds and revenue sharing allocations being allocated in the same respective portions. For 2011, the City of Marion will account separately for the 0.75% income tax obligated to the Police and Fire Departments in the General Fund. Past practice is no longer followed to ensure this issue does not continue.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-006

Material Non-Compliance – Appropriations

Ohio Rev. Code 5705.36 (A) (4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriations.

The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

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

At December 31, 2009, appropriations exceeded total estimated resources as follows:

Fund	Estimated Resources	Appropriations	Variance
Court Computerization	\$ 118,309	\$ 121,601	\$ (3,292)
Community Corrections	132,275	145,684	(13,409)
Probation Services	-	5,645	(5,645)
Police & Fire Pension	289,515	292,586	(3,071)
CHIP	523,514	564,971	(41,457)
Revolving Loan	163,247	195,265	(32,018)
Downtown Revitalization	604,425	621,460	(17,035)
CDBG Formula	216,840	312,323	(95,483)
Capital Improvement	1,991,651	2,461,018	(469,367)
DRIP Infrastructure	1,055,922	1,311,712	(255,790)

Contrary to Ohio Rev. Code 5705.39, at December 31, 2009 the City had two funds in which ending appropriations exceeded actual resources:

Fund	Actual Resources	Appropriations	Variance
Street Construction			
Maintenance & Repair	\$2,062,246	\$ 3,402,474	\$ (1,340,228)
Sanitation Fund	2,081,355	2,379,963	(298,608)

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

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-006 (Continued)

Material Non-Compliance – Appropriations (Continued)

Officials Response:

The City of Marion does agree, in part, that with the Community Corrections Grant the appropriations may have exceeded the estimated resources due to an oversight from fiscal year to calendar year. The Community Corrections Grant operates on a fiscal year basis and not a calendar year like the City of Marion. The State of Ohio provides the funding for this grant and on a fiscal year appropriation does not exceed the estimated resources. Corrective measures are put in place to ensure compliance. The City of Marion is taking additional steps to ensure this is not a continuing issue with reductions in appropriations and additional monitoring.

FINDING NUMBER 2009-007

Purchasing Authorization Controls – Significant Deficiency

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

We noted the following while testing various purchasing transactions:

1. Twenty-three percent of expenditures where the PO was not reviewed and approved by the appropriate department supervisor to indicate approval.
2. Six percent of expenditures tested where the PO was not reviewed and approved by the City Auditor, Deputy Auditor, or Internal Auditor to certify the correct fund and account code.
3. Ten percent of expenditures tested where an Accounts Payable Edit Listing was not included in the voucher packet to show that all department invoices were combined to one check.
4. Twenty-three of percent of expenditures tested where the Accounts Payable Edit Listing was not recalculated for accuracy, and there was no calculator tape attached to the report.

Failure to follow internal control procedures for the authorization of expenditures establish by the City may result in payment for goods that were not received or services that were not rendered or in misclassification of expenditures on the financial statements.

We recommend the City follow the internal control procedures over disbursements.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-007 (Continued)

Purchasing Authorization Controls – Significant Deficiency (Continued)

Officials Response:

During the transition from the old system to the new system, Purchase Order procedures changed. The City of Marion asserts the following:

1. During conversion from the old system to the new system, the old purchase orders were approved on paper by the supervisor. When the new system was implemented, these same purchase orders were re-entered into the new system and no approval was necessary by the supervisor as they had already approved them.
2. The final approval process in the old system was a physical check and signature by the Auditor, Deputy Auditor, or Internal Auditor. The new system allows the electronic approval of the purchase orders and cannot be approved until the Auditor's Office does so. No other office or individual has the approval authority.
3. This issue has been addressed to compile one edit listing in the auditor's office instead of several different department listings.
4. No calculator tape is attached; however, all bills are added for accuracy. The totals are now written on the top of the individual edit listings after auditing the attached bills.

The City of Marion has tightened controls and will continue to monitor.

FINDING NUMBER 2009-008

**Budgetary Expenditures Exceed Appropriations & Accounting System
– Material Non-Compliance/Significant Deficiency**

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

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

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-008 (Continued)

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

At December 31, 2009, we noted the following differences between the budgeted revenues and appropriations and the corresponding amounts contained within the accounting system:

Fund	Actual Estimated Revenues	Estimated Revenues per the Accounting System	Variance
General	\$ 20,633,173	\$ 20,473,521	\$ 159,652
Sewer Fund	12,692,967	10,805,081	1,887,886
Sanitation Fund	2,163,934	2,078,000	85,934
Storm Water	5,522,634	5,484,959	37,675
Senior Citizens	123,954	125,608	(1,654)

Fund	Actual Appropriations	Appropriations per the Accounting System	Variance
General	\$ 21,255,984	\$ 21,322,700	\$ (66,716)
Street Construction Maintenance & Repair	3,402,474	2,927,233	475,241
Sewer Fund	12,245,780	11,900,833	344,947
Sanitation Fund	2,379,963	2,358,352	21,611
Storm Water	7,308,434	6,950,911	357,523
Landfill Fund	302,821	341,075	(38,254)
Senior Citizens	166,367	162,404	3,963
State Highway	363,705	315,010	48,695
Capital Projects	2,403,018	2,258,932	144,086

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

FINDING NUMBER 2009-008 (Continued)

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

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

Fund	Function	Object	Appropriations	Budgetary Expenditures	Excess
Stormwater Fund	Stormwater	Capital Outlay	\$ -	\$ 628,032	\$ (628,032)

Contributing to this condition was the deficiency in financial monitoring described in Finding 2009-001.

We recommend the City Auditor’s office ensure the timeliness and accuracy of the budgeted amounts posted to the accounting system. Additionally the City Auditor and the City Council should monitor budget versus actual reports throughout the year to ensure actual revenues approximate budgeted amounts and actual expenditures do not exceed appropriations at the legal level of control.

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

Officials Response:

The City of Marion recognizes when working within two systems there could be room for oversight. With the City of Marion now on one system, internal controls are tighter and recommendations from the State Auditor will be implemented.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Cash Management – Community Development Block Grant

Finding Number	2009-009
CFDA Title and Number	Community Development Block Grant – States Program (CFDA #14.228)
Federal Award Number / Year	A-F-06-142-1 A-C-08-142-1
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

Cash Management – Material Non-Compliance/Material Weakness (Continued)

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

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

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

Grant	Drawdown Date	Amount	Balance On-Hand After 15 Days	# Days Until Balance < \$5,000
A-C-08-142-1	1/30/09	\$ 10,000	\$ 10,000	65
A-F-06-142-1	6/24/09	30,000	24,373	144

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

The City deposited each grant receipt into an interest-bearing account. Although certain grants receipts were held for significant period of time, the City did not perform any calculation of interest earned by the grant money, nor remitted any interest earnings to the OHCP

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

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

Cash Management – Material Non-Compliance/Material Weakness (Continued)

Finding Number	2009-009
CFDA Title and Number	Community Development Block Grant – States Program (CFDA #14.228)
Federal Award Number / Year	A-F-06-142-1 A-C-08-142-1
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Officials’ Response and Corrective Action Plan:

The City of Marion agrees that with this grant program there was a period of time in which the cash on hand exceeded the 15 day requirement. However, after computing interest at the interest rate at the highest interest rate that would have been earned on the \$10,000 under A-C-08-142-1 would be \$1.80 for a period of 60 days and therefore less than \$100.00. As with the Interest that could have been earned on the \$24,373 under A-F-06-142-1 for the period of 144 days the interest would have been \$5.58 and therefore less than \$100.00. Even when combining the two accounts the interest calculation would not have exceeded the \$100 limit and no interest is due.

As with the separation of the two CFDA accounts, the City of Marion agrees that this was an oversight and has been corrected. The City of Marion will consider the recommendation of making advances to these funds.

Anticipated Completion Date: February 11, 2011
Responsible Contact: Kelly Carr, City Auditor

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Material Non-Compliance/Material Weakness

Payroll Expenditures – Formula Grant for Other Than Urbanized Areas Federal Program

Finding Number	2009-010
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas (CFDA #20.509)
Federal Award Number / Year	RPT-4051-029-091 RPT-4051-029-093 RPT-0051-027-082 RPT-4051-027-081 RPT-4051-027-083 RPT-0051-001-093
Federal Agency	U.S. Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

2 C.F.R. Part 225 (OMB Circular A-87, Attachment B subsection 8.h.) provides, in part, that salaries and wages shall be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit. When employees work on multiple activities or cost objectives, a distribution of compensation shall be supported by personnel activity reports that reflect the actual activity and total activity of the employees, unless certain time requirements are met.

We noted the following regarding payroll expenditures charged to the Formula Grants for Other Than Urbanized Areas (Rural Transit Grant) Program:

- For ninety seven percent of the payroll expenditures the timecard was not signed by the employee.
- For three percent of the payroll expenditures, the summary sheet did not agree to the time card.
- For thirty-three percent of the payroll expenditures, the leave card was not signed by either the employee or the department head.

We recommend the City ensure that established internal control procedures to ensure compliance with federal compliance requirements are followed. The City should ensure timecards are signed by the employee and ensure approval of the summary sheet by the department head. Also, on a monthly basis the departments should reconcile their records to the data posted and maintained in the City's accounting ledgers maintained by the City Auditor's office. These reconciliations should be evidenced by appropriate tickmarks or initials by a department supervisor who performed the procedure.

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Material Non-Compliance/Material Weakness (Continued)

Payroll Expenditures – Formula Grant for Other Than Urbanized Areas Federal Program (Continued)

Finding Number	2009-010
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas (CFDA #20.509)
Federal Award Number / Year	RPT-4051-029-091 RPT-4051-029-093 RPT-0051-027-082 RPT-4051-027-081 RPT-4051-027-083 RPT-0051-001-093
Federal Agency	U.S. Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

Officials’ Response and Corrective Action Plan:

The City of Marion has reiterated the policies regarding time sheets/cards with each department. This does include that time cards must be signed by the employee and not just with the clock in/clock out procedure.

Responsible Contact: Jeff Marsh Transit Administrator
 Jay Shoup, Director

Anticipated Completion Date: February 11, 2011

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

See (GAGAS) finding #2009-001 above; A-133 also requires us to report this finding.

Financial Monitoring

Finding Number	2009-011
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas (CFDA #20.509) Community Development Block Grant – States Program (CFDA #14.228)
Federal Award Number / Year	A-F-07-142-1 RPT-4051-029-091 A-F-08-142-1 RPT-4051-029-093 A-F-09-142-1 RPT-4051-029-082 A-T-06-142-1 RPT-4051-029-081 A-F-06-142-1 RPT-4051-029-083 A-C-08-142-1 RPT-4051-029-093
Federal Agency	U.S. Department of Housing and Urban Development U.S. Department of Transportation
Pass-Through Agency	Ohio Department of Development Ohio Department of Transportation

Officials' Response and Corrective Action Plan:

Anticipated Completion Date: February 11, 2011
Responsible Contact: Kelly Carr, City Auditor

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2009
(Continued)**

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

See (GAGAS) finding #2009-007 above; A-133 also requires us to report this finding.

Purchasing Authorization Controls

Finding Number	2009-012
CFDA Title and Number	Formula Grants for Other Than Urbanized Areas (CFDA #20.509) Community Development Block Grant – States Program (CFDA #14.228)
Federal Award Number / Year	A-F-07-142-1 RPT-4051-029-091 A-F-08-142-1 RPT-4051-029-093 A-F-09-142-1 RPT-4051-029-082 A-T-06-142-1 RPT-4051-029-081 A-F-06-142-1 RPT-4051-029-083 A-C-08-142-1 RPT-4051-029-093
Federal Agency	U.S. Department of Housing and Urban Development U.S. Department of Transportation
Pass-Through Agency	Ohio Department of Development Ohio Department of Transportation

Officials' Response and Corrective Action Plan:

Anticipated Completion Date: February 11, 2011
Responsible Contact: Kelly Carr, City Auditor

**CITY OF MARION
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Transactional Data Entry – Significant Deficiency – lack of consistency in posting of transactions.	Yes	Finding No Longer Valid
2008-002	Management of Cash Collections – Material Weakness – controls over cash collection process were weak.	Yes	Finding No Longer Valid
2008-003	Delinquent Income Tax Collections – Material Weakness – controls concerning collection of delinquent income taxes were weak.	No	Partially Corrected – Re-Issued in Management Letter
2008-004	Delinquent Sanitation Collections – Material Weakness – controls concerning collection of delinquent utility billings were weak.	No	Partially Corrected – Re-Issued in Management Letter
2008-005	Appropriations Exceed Estimated Resources – Material Non-Compliance Ohio Rev. Code 5705.39	No	Re-Issued as Finding #2009-006



Dave Yost • Auditor of State

CITY OF MARION

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 14, 2011**