



**Auditor of State  
Betty Montgomery**



**CITY OF MARION  
MARION COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
General Purpose Financial Statements:	
Combined Balance Sheet – All Fund Types and Account Groups .....	3
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Funds .....	5
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Non-GAAP) – All Governmental Fund Types .....	6
Combined Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Fund Types .....	9
Combined Statement of Cash Flows – Proprietary Fund Types .....	10
Notes to the General Purpose Financial Statements.....	11
Schedule of Federal Awards Expenditures.....	35
Notes to the Schedule of Federal Awards Expenditures .....	36
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	37
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	39
Schedule of Findings .....	41

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Marion, Marion County, Ohio, (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Marion, Marion County, Ohio, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 18, during the year ended December 31, 2001, the City adopted *Governmental Accounting Standards Board Statements No. 33 and 36*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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The accompanying Schedule of Federal Awards Expenditures (the Schedule) replaces the Schedule in the City of Marion's year ended December 31, 2001 reporting package. The Schedule was revised to include the Home Investment Partnership Program (CFDA #14.239) and a portion of the Community Development Block Grant – State's Program (CFDA #14.228), which were previously omitted from the Schedule.

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

**BETTY MONTGOMERY**  
Auditor of State

August 9, 2002, except for the last two paragraphs, which are dated April 28, 2003

City of Marion  
Marion County  
Combined Balance Sheet - All Fund Types and Account Groups  
December 31, 2001

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust & Agency	General Fixed Assets	General Long-Term Obligations	
<b>Assets and Other Debits:</b>										
<b>Assets:</b>										
Equity in Pooled Cash and Cash Equivalents	\$3,006,127	\$1,223,834	\$161,785	\$459,146	\$6,689,609	\$84,011	\$273,396			\$11,897,908
Investments	563,000									\$563,000
Cash With Fiscal Agent			288							288
Petty Cash	1,110	150			380	400	40			2,080
Due From Other Funds	74,251	11,604			7,042	12,061				104,958
Interfund Receivables	867,154									867,154
Receivables (Net of Allowance for Uncollectibles):										
Interest	15,746									15,746
Accounts	44,959	21,086			1,925,142	15	725			1,991,927
Property Taxes	1,315,188	234,414								1,549,602
Inheritance Tax	44,091									44,091
Local Taxes	1,365,191	132,115		44,038						1,541,344
Intergovernmental	217,375	454,122		27,624	76,408		1,500			777,029
Notes Receivable		777,140	555,556							1,332,696
Prepaid Items	114,251	21,211			43,156					178,618
Supplies Inventory	44,052	26,539			47,258	40,272				158,121
Fixed Assets (net, where applicable, of accumulated depreciation)					32,978,337	125,197		19,702,424		52,805,958
Other Debits:										
Amount to be Provided for Retirement of General Long-Term Obligations								6,043,252		6,043,252
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds									143,110	143,110
<b>Total Assets and Other Debits</b>	<b>\$7,672,495</b>	<b>\$2,902,215</b>	<b>\$717,629</b>	<b>\$530,808</b>	<b>\$41,767,332</b>	<b>\$261,956</b>	<b>\$275,661</b>	<b>\$19,702,424</b>	<b>\$6,186,362</b>	<b>\$80,016,882</b>
Page 4										
<b>Liabilities, Fund Equity, and Other Credits:</b>										
<b>Liabilities:</b>										
Accounts Payable	\$80,096	\$256,834		\$34,771	\$2,244,260	\$1,750	5,506			\$2,623,217
Accrued Payroll	290,886	93,405			82,229	3,624				470,144
Accrued PERS	99,851	70,281			84,972	3,561				258,665
Accrued Worker Compensation	67,372	20,248			18,630	731				106,981
Accrued Police & Fire Pension	234,474	127,006								361,480
Matured Bonds & Interest Payable			288							288
Other Payables	3,687	919			721	55	61,845			67,227
Interfund Payables		30,000	18,675	818,479						867,154
Due to Other Funds	4,343	8,670			16,343		75,602			104,958
Due to Other Governments	585	31,287			441	10	108,348			140,671
Deferred Property Taxes	1,262,512	225,474								1,487,986
Deferred Inheritance Tax	44,091									44,091
Deferred Revenue		241,573			19,695					261,268
Loans Payable					18,275,563			1,981,564		20,257,127
Bonds Payable					7,380,000			1,678,000		9,058,000
Compensated Absences	239,741	49,685			406,059	5,262		2,491,798		3,192,545
Landfill Postclosure Payable					2,673,000					2,673,000
Special Assessment Bonds Payable								35,000		35,000
<b>Total Liabilities</b>	<b>2,327,638</b>	<b>1,155,382</b>	<b>18,963</b>	<b>853,250</b>	<b>31,201,913</b>	<b>14,993</b>	<b>251,301</b>	<b>0</b>	<b>6,186,362</b>	<b>42,009,802</b>
<b>Fund Equity and Other Credits:</b>										
Investment in General Fixed Assets								19,702,424		19,702,424
Contributed Capital					3,920,086	16,170				3,936,256
Retained Earnings					6,645,333	230,793				6,876,126
Fund Balance:										
Reserved for Supplies Inventory	44,052	26,539								70,591
Reserved for Encumbrances	100,993	183,728		824,082						1,108,803
Reserved for Prepays	114,251	21,211								135,462
Reserved for Notes Receivable		777,140	555,556							1,332,696
Reserved for Investments	563,000									563,000
Reserved for Debt Service			143,110							143,110
Unreserved, Undesignated (Deficit)	4,522,561	738,215		(1,146,524)			24,360			4,138,612
<b>Total Fund Equity and Other Credits</b>	<b>5,344,857</b>	<b>1,746,833</b>	<b>698,666</b>	<b>(322,442)</b>	<b>10,565,419</b>	<b>246,963</b>	<b>24,360</b>	<b>19,702,424</b>	<b>0</b>	<b>38,007,080</b>
<b>Total Liabilities, Fund Equity, and Other Credits</b>	<b>\$7,672,495</b>	<b>\$2,902,215</b>	<b>\$717,629</b>	<b>\$530,808</b>	<b>\$41,767,332</b>	<b>\$261,956</b>	<b>\$275,661</b>	<b>\$19,702,424</b>	<b>\$6,186,362</b>	<b>\$80,016,882</b>

See Accompanying Notes to the General Purpose Financial Statements

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City of Marion, Ohio  
 Combined Statement of Revenues, Expenditures and Changes In Fund Balances  
 All Governmental Fund Types and Expendable Trust Funds  
 For The Year Ended December 31, 2001

	Governmental Fund Types				Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<u>Revenues:</u>						
Taxes	\$11,196,675	\$1,335,054	\$90,326	\$466,488		\$13,088,543
Intergovernmental Revenues	2,204,844	2,751,322		220,519		5,176,685
Special Assessments	9,634	17,910	42,996			70,540
Charges for Services	96,767	122,232		33,666		252,665
Fines,Licenses,and Permits	1,060,942	160,674				1,221,616
Miscellaneous	526,185	146,467	35,206	24,327	9,975	742,160
Total Revenues	15,095,047	4,533,659	168,528	745,000	9,975	20,552,209
<u>Expenditures:</u>						
Current:						
Security of Persons and Property	9,261,106	1,057,067		187,611	8,293	10,514,077
Public Health Services		1,020,625				1,020,625
Leisure Time Activities	470,987	461,707		60,839	1,200	994,733
Community Environment	334,327	661,483		780,897		1,776,707
Transportation	281,404	2,228,226		219,393		2,729,023
General Government	2,698,188	64,092		100,735		2,863,015
Capital Outlay	181,187	167,497				348,684
Debt Service	784		395,893			396,677
Total Expenditures	13,227,983	5,660,697	395,893	1,349,475	9,493	20,643,541
Excess (Deficiency) of revenues over expenditures	1,867,064	(1,127,038)	(227,365)	(604,475)	482	(91,332)
<u>Other Financing Sources/(Uses):</u>						
Sale of Bonds						0
Proceeds of Loan						0
Operating Transfers-In		1,340,411	25,228	18,132		1,383,771
Operating Transfers-Out	(1,490,639)	(43,500)		(24,532)		(1,558,671)
Other Financing Sources	232,996	140,112	0	1,041		374,149
Other Financing Uses	(217,720)	(215,842)				(433,562)
Total Other Financing Sources/(Uses)	(1,475,363)	1,221,181	25,228	(5,359)	0	(234,313)
Excess (Deficiency) of revenues & other financing sources over expenditures & other financing uses	391,701	94,143	(202,137)	(609,834)	482	(325,645)
Beginning Fund Balance	4,953,156	1,652,690	900,803	287,392	23,878	7,817,919
Ending Fund Balance	\$5,344,857	\$1,746,833	\$698,666	(\$322,442)	\$24,360	\$7,492,274

See Accompanying Notes to the General Purpose Financial Statements

City of Marion, Ohio  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
 Budget and Actual (Non - GAAP)- All Governmental Fund Types  
 For the Year Ended December 31, 2001

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>						
Taxes	\$11,273,940	\$11,174,308	(\$99,632)	\$1,347,673	\$1,332,557	(\$15,116)
Intergovernmental Revenues	2,230,418	2,102,743	(127,675)	3,228,559	2,682,402	(546,157)
Special Assessments	8,070	9,634	1,564	14,442	17,910	3,468
Charges for Services	150,166	97,420	(52,746)	115,550	123,828	8,278
Fines,Licenses,and Permits	999,760	1,040,680	40,920	175,450	154,754	(20,696)
Miscellaneous	563,300	540,880	(22,420)	180,005	130,782	(49,223)
Total Revenues	<u>15,225,654</u>	<u>14,965,665</u>	<u>(259,989)</u>	<u>5,061,679</u>	<u>4,442,233</u>	<u>(619,446)</u>
<u>Expenditures:</u>						
Current:						
Security of Persons and Property	9,604,898	9,437,513	167,385	1,142,224	1,054,436	87,788
Public Health Services	0	0	0	1,172,066	1,020,936	151,130
Leisure Time Activities	516,032	483,338	32,694	513,805	481,173	32,632
Community Environment	343,377	334,327	9,050	918,640	707,307	211,333
Transportation	338,540	310,015	28,525	2,467,444	2,354,085	113,359
General Government	2,963,120	2,801,001	162,119	242,279	66,697	175,582
Capital Outlay	279,057	214,417	64,640	218,906	174,513	44,393
Debt Service	784	784	0	0	0	0
Total Expenditures	<u>14,045,808</u>	<u>13,581,395</u>	<u>464,413</u>	<u>6,675,364</u>	<u>5,859,147</u>	<u>816,217</u>
Excess (Deficiency) of revenues over expenditures	1,179,846	1,384,270	204,424	(1,613,685)	(1,416,914)	196,771
<u>Other Financings Sources/(Uses):</u>						
Operating Transfers-In	0	0	0	1,359,103	1,340,411	(18,692)
Operating Transfers-Out	(1,639,726)	(1,490,639)	149,087	(43,500)	(43,500)	0
Advances In	0	42,500	42,500	0	180,965	180,965
Advances Out	0	(884,654)	(884,654)	0	(150,965)	(150,965)
Other Financing Sources	215,000	230,025	15,025	129,192	137,053	7,861
Other Financing Uses	(231,000)	(217,720)	13,280	(410,287)	(238,974)	171,313
Total Other Financings Sources/(Uses)	<u>(1,655,726)</u>	<u>(2,320,488)</u>	<u>(664,762)</u>	<u>1,034,508</u>	<u>1,224,990</u>	<u>190,482</u>
Excess (Deficiency) of revenues & other financing sources over expenditure & other financing uses	(475,880)	(936,218)	(460,338)	(579,177)	(191,924)	387,253
Beginning Fund Balance	4,066,670	4,066,670	0	639,687	639,687	0
Prior Year Encumbrances Appropriated	257,580	257,580	0	335,297	335,297	0
Ending Fund Balance	<u>\$3,848,370</u>	<u>\$3,388,032</u>	<u>(\$460,338)</u>	<u>\$395,807</u>	<u>\$783,060</u>	<u>\$387,253</u>

See Accompanying Notes to the General  
 Purpose Financial Statements

City of Marion, Ohio  
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
 Budget and Actual (Non - GAAP)- All Governmental Fund Types  
 For the Year Ended December 31, 2001  
 (Continued)

	Debt Service Funds			Capital Project Funds			Total All Governmental Funds (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>									
Taxes	\$257,411	\$90,326	(\$167,085)	\$449,215	\$447,465	(\$1,750)	\$13,328,239	\$13,044,656	(\$283,583)
Intergovernmental Revenues	0	0	0	2,329,085	192,895	(2,136,190)	7,788,062	4,978,040	(2,810,022)
Special Assessments	44,500	45,899	1,399	0	0	0	67,012	73,443	6,431
Charges for Services	0	0	0	22,500	33,666	11,166	288,216	254,914	(33,302)
Fines, Licenses, and Permits	0	0	0	0	0	0	1,175,210	1,195,434	20,224
Miscellaneous	51,922	51,013	(909)	22,550	24,327	1,777	817,777	747,002	(70,775)
<b>Total Revenues</b>	<b>353,833</b>	<b>187,238</b>	<b>(166,595)</b>	<b>2,823,350</b>	<b>698,353</b>	<b>(2,124,997)</b>	<b>23,464,516</b>	<b>20,293,489</b>	<b>(3,171,027)</b>
<b>Expenditures:</b>									
Current:									
Security of Persons and Property	0	0	0	251,031	245,896	5,135	10,998,153	10,737,845	260,308
Public Health Services	0	0	0	0	0	0	1,172,066	1,020,936	151,130
Leisure Time Activities	0	0	0	312,036	74,534	237,502	1,341,873	1,039,045	302,828
Community Environment	0	0	0	1,018,030	974,862	43,168	2,280,047	2,016,496	263,551
Transportation	0	0	0	1,184,082	775,112	408,970	3,990,066	3,439,212	550,854
General Government	0	0	0	102,280	100,735	1,545	3,307,679	2,968,433	339,246
Capital Outlay	0	0	0	0	0	0	497,963	388,930	109,033
Debt Service	396,412	395,893	519	0	0	0	397,196	396,677	519
<b>Total Expenditures</b>	<b>396,412</b>	<b>395,893</b>	<b>519</b>	<b>2,867,459</b>	<b>2,171,139</b>	<b>696,320</b>	<b>23,985,043</b>	<b>22,007,574</b>	<b>1,977,469</b>
Excess (Deficiency) of revenues over expenditures	(42,579)	(208,655)	(166,076)	(44,109)	(1,472,786)	(1,428,677)	(520,527)	(1,714,085)	(1,193,558)
<b>Other Financings Sources/(Uses):</b>									
Operating Transfers-In	42,840	25,229	(17,611)	62,212	18,132	(44,080)	1,464,155	1,383,772	(80,383)
Operating Transfers-Out	0	0	0	(41,497)	(24,532)	16,965	(1,724,723)	(1,558,671)	166,052
Advances In	0	18,675	18,675	0	818,479	818,479	-	1,060,619	1,060,619
Advances Out	0	0	0	0	(25,000)	(25,000)	-	(1,060,619)	(1,060,619)
Other Financing Sources	0	0	0	15	1,041	1,026	344,207	368,119	23,912
Other Financing Uses	0	0	0	(136,539)	0	136,539	(777,826)	(456,694)	321,132
<b>Total Other Financings Sources/(Uses)</b>	<b>42,840</b>	<b>43,904</b>	<b>1,064</b>	<b>(115,809)</b>	<b>788,120</b>	<b>903,929</b>	<b>(694,187)</b>	<b>(263,474)</b>	<b>430,713</b>
Excess (Deficiency) of revenues & other financing sources over expenditure & other financing uses	261	(164,751)	(165,012)	(159,918)	(684,666)	(524,748)	(1,214,714)	(1,977,559)	(762,845)
Beginning Fund Balance	326,537	326,537	0	213,251	213,251	0	5,246,145	5,246,145	-
Prior Year Encumbrances Appropriated	0	0	0	71,709	71,709	0	664,586	664,586	0
<b>Ending Fund Balance</b>	<b>\$326,798</b>	<b>\$161,786</b>	<b>(\$165,012)</b>	<b>\$125,042</b>	<b>(\$399,706)</b>	<b>(\$524,748)</b>	<b>\$4,696,017</b>	<b>\$3,933,172</b>	<b>(\$762,845)</b>

See Accompanying Notes to the General  
 Purpose Financial Statements

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City of Marion  
 Combined Statement of Revenues,  
 Expenses, and Changes in Fund Equity  
 Proprietary Fund Type  
 For the Year Ended December 31, 2001

	Enterprise	Internal Service	Total
<u>Operating Revenues:</u>			
Charges for Services	\$7,478,182	\$176,854	\$7,655,036
Miscellaneous	13,174	0	13,174
Total Operating Revenues	<u>7,491,356</u>	<u>176,854</u>	<u>7,668,210</u>
<u>Operating Expenses:</u>			
Personal Services	3,003,731	124,849	3,128,580
Travel Transportation	1,309	155	1,464
Contractual Services	2,314,443	16,064	2,330,507
Materials & Supplies	572,066	17,530	589,596
Depreciation	1,076,213	4,768	1,080,981
Other Operating Expenses	23,978	186	24,164
Change to Landfill Postclosure Costs	(25,167)	0	(25,167)
Total Operating Expenses	<u>6,966,573</u>	<u>163,552</u>	<u>7,130,125</u>
Operating Income	<u>524,783</u>	<u>13,302</u>	<u>538,085</u>
<u>Non-Operating Revenues/(Expenses):</u>			
Interest Expense	(600,297)	0	(600,297)
Other Non-Operating Revenue	1,037,310	54,569	1,091,879
Other Non-Operating Expenses	(4,397,007)	0	(4,397,007)
Total Non-Operating Revenue	<u>(3,959,994)</u>	<u>54,569</u>	<u>(3,905,425)</u>
Income Before Operating Transfers	(3,435,211)	67,871	(3,367,340)
Operating Transfers In	<u>24,400</u>	<u>150,500</u>	<u>174,900</u>
Net Income	(3,410,811)	218,371	(3,192,440)
Retained Earnings at Beginning of Year	9,665,774	9,185	9,674,959
Depreciation on Fixed Assets Acquired by Contributed Capital	<u>390,370</u>	<u>3,237</u>	<u>393,607</u>
Retained Earnings at End of Year	<u>6,645,333</u>	<u>230,793</u>	<u>6,876,126</u>
Contributed Capital at Beginning of Year	4,405,312	19,407	4,424,719
Depreciation on Fixed Assets Acquired by Contributed Capital	(390,370)	(3,237)	(393,607)
Fixed Asset Disposal	<u>(94,856)</u>	<u>0</u>	<u>(94,856)</u>
Contributed Capital at End of Year	<u>3,920,086</u>	<u>16,170</u>	<u>3,936,256</u>
Ending Fund Equity	<u>\$10,565,419</u>	<u>\$246,963</u>	<u>\$10,812,382</u>

See Accompanying Notes to the General Purpose Financial Statements

City of Marion  
 Combined Statement of Cash Flows  
 Proprietary Fund Type  
 For the Year Ended December 31, 2001

	Enterprise	Internal Service	Total
<u>Cash Flows from Operating Activities:</u>			
Operating Income	\$524,782	\$13,302	\$538,084
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u>			
Depreciation	1,076,213	4,768	1,080,981
(Increase)/Decrease in Due From Other Funds	3,182	(3,118)	64
(Increase)/Decrease in Receivables - Accounts	(317,079)	135	(316,944)
Decrease in Intergovernmental Receivable	19,144	0	19,144
Decrease in Prepaid Items	6,055	0	6,055
(Increase)/Decrease in Supplies Inventory	7,821	(4,003)	3,818
Increase/(Decrease) in Accounts Payable	1,901,621	(1,472)	1,900,149
Decrease in Accrued Payroll	(51)	(1,305)	(1,356)
Increase in Accrued PERS	33,844	1,373	35,217
Decrease in Accrued Workers' Compensation	(54,029)	(3,309)	(57,338)
Increase in Other Payables	(85)	1	(84)
Increase in Due to Other Funds	748	0	748
Increase in Deferred Revenue	15,183	0	15,183
Increase/(Decrease) in Due To Other Governments	(10,106)	10	(10,096)
(Decrease) in Post-Closure Payable	(121,500)	0	(121,500)
Decrease in Compensated Absences	(14,592)	(5,486)	(20,078)
Total Adjustments	2,546,369	(12,406)	2,533,963
Net Cash Provided by Operating Activities	3,071,151	896	3,072,047
<u>Cash Flows from Noncapital Financing Activities:</u>			
Receipts of Operating Grants	773,841	0	773,841
Operating Transfers - In	24,400	150,500	174,900
Other Nonoperating Revenues	2,112	270	2,382
Other Nonoperating Expenses	(4,414,857)	0	(4,414,857)
Net Cash Provided by/(Used for) Noncapital Financing Activities	(3,614,504)	150,770	(3,463,734)
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Receipts of Capital Grants	348,608	0	348,608
Proceeds from Sale of Assets	3,738	13	3,751
Acquisition of Fixed Assets	(13,102,287)	(84,475)	(13,186,762)
Proceeds from OWDA Loan	13,364,507	0	13,364,507
Proceeds from State Issue II	309,615	0	309,615
Principal Payments on Bonds	(205,000)	0	(205,000)
Principal Payments on OWDA Loan	(967,553)	0	(967,553)
Principal Payments on OPWC Loan	(45,478)	0	(45,478)
Interest Payments on Bonds	(413,341)	0	(413,341)
Interest Payments on OWDA Loan	(186,956)	0	(186,956)
Net Cash Used for Capital and Related Financing Activities	(894,147)	(84,462)	(978,609)
<u>Cash Flows from Investing Activities</u>			
Intererst Receipts	129,048	0	129,048
Net Cash Provided for Investing Activities	129,048	0	129,048
Net Increase/(Decrease) in Cash and Cash Equivalents	(1,308,452)	67,204	(1,241,248)
Cash and Cash Equivalents at Beginning of Year	7,998,061	16,807	8,014,868
Cash and Cash Equivalents at End of Year	\$6,689,609	\$84,011	\$6,773,620

See Accompanying Notes to the General Purpose Financial Statements

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001**

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

**A. The City**

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

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

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

**B. Reporting Entity**

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

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

**A. Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The various funds and account groups are reported by type columns in the financial statements.

The City uses the following fund categories, fund types and account groups:

**Governmental Fund Types:**

**General Fund**

The general fund is the operating fund of the City and is used to account 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.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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

**A. Fund Accounting (Continued)**

**Special Revenue Funds**

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Fund**

The debt service fund is used to account for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest and related costs and special assessment long-term debt principal, interest and related costs.

**Capital Projects Funds**

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Proprietary Fund Types:**

**Enterprise Funds**

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Internal Service Fund**

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost reimbursement basis.

**Fiduciary Fund Types:**

**Expendable Trust Funds**

Expendable trust funds are accounted for in essentially the same manner as governmental funds and are used by the City to account for assets held by the City in a trustee capacity.



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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

**A. Fund Accounting (Continued)**

**Agency Funds**

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Account Groups:**

**General Fixed Assets Account Group**

This account group is used to account for all fixed assets of the City, other than those accounted for in the proprietary funds.

**General Long-Term Obligations Account Group**

This account group is used to account for all long-term obligations of the City except those accounted for in the proprietary funds.

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust 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. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed in all governmental fund types, expendable trust and agency funds. Under this basis, revenues are recognized in the period when they become both measurable and available. Grants and entitlements must also meet timing, eligibility, and contingency requirements. Measurable means the amount of the transaction can be determined. Available means collectible within the current year or soon thereafter to be used to pay liabilities of the year, which for the City is considered to be 60 days after year-end.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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

**B. Measurement Focus and Basis of Accounting (Continued)**

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of December 31, 2001 and delinquent property taxes, whose availability is indeterminable and which are intended to finance 2002 operations, have also been recorded as a deferred revenue.

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 liability is incurred, if measurable. Principal and interest on general long-term obligations are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments made early in the following year. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The proprietary funds are reported using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. Unbilled service charges receivables are recognized as revenue at year-end.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**C. Budgetary Data**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinances. The tax budget, certificate of estimated resources, and appropriation ordinance is prepared on the cash basis as required by the County Budget Commission. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources as certified. All changes in appropriated amounts require action by the City Council.

**Tax Budget:**

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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

**C. Budgetary Data (Continued)**

**Estimated Resources:**

The County Budget Commission certifies its actions to the City by September 1. As part of this process, the City receives the official certificate of estimated resources, which states the projected cash receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered cash balances from the preceding year. The amounts reported on the budgetary statements reflect the amounts in the final Amended Official Certificate of Estimated Resources.

**Appropriations:**

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance may be amended during the year, as new information becomes available provided that total appropriations do not exceed estimated resources, as certified.

**Encumbrances:**

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds.

**Lapsing of Appropriations:**

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, program and/or object level.

**D. Cash and Cash Equivalents**

Cash balances of the City's funds, except cash held by a trustee or fiscal agent, are pooled and invested in short-term investments in order to provide improved cash management. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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

**D. Cash and Cash Equivalents (Continued)**

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2001. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2001.

Each fund type's share of the pool is presented on the balance sheet in the account, "Equity in Pooled Cash and Cash Equivalents." For the purpose of the presentation of the combined balance sheet, funds included within the City's cash management pool and investments with original maturities of three months or less are considered to be cash equivalents.

Cash and cash equivalents that are held separately for the City by fiscal or escrow agents and not held with the City Treasurer are recorded on the balance sheet as "Cash with Fiscal Agent."

The City allocates interest earnings to certain funds in accordance with Ohio Statutes. Interest revenue credited to the General Fund during 2001 amounted to \$523,598 which includes approximately \$365,563 assigned from other funds.

**E. Investments**

The Harding Center Fund issued bonds in 1999 for the purpose of providing a loan to the Marion Senior Housing Limited Partnership. The City's general fund purchased the bonds and, accordingly, the bonds are reported at fair value as an Investment of the General Fund.

**F. Inventories**

Inventories of governmental funds are stated at cost, while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund type when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2001 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure or expense is reported in the year in which services are consumed.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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

**H. Fixed Assets and Depreciation**

The fixed asset values were initially determined at December 31, 1987, assigning original acquisition costs for the majority of assets. For certain assets where the original costs were not practicably determinable, other methods were used to estimate and assign costs.

Public domain (“infrastructure”) general fixed assets consisting of streets and sidewalks are not capitalized by the City since they are immovable and of value only to the City. Sanitary sewers are capitalized so that the depreciation on these assets can be included in total costs to be recovered with sewer rates. The City has elected not to record depreciation in the General Fixed Assets Account Group, in accordance with generally accepted accounting principles for governmental entities. Depreciation is recorded in the proprietary fund types using the straight-line basis over the estimated useful lives of the related assets. The City has elected not to capitalize interest cost.

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on actual leave balances taking into consideration any limits specified in the City's termination policy.

**J. Contributed Capital**

Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to contributed capital at year end. With the implementation of GASB Statement No. 33, contributions of fixed assets to proprietary funds are recorded as non-operating revenue in the accompanying financial statements.

**K. Reserves of Fund Equity**

The City records reservations for portions of fund balance that are segregated for specific future uses or which do not represent available expendable financial resources and, therefore, are not available for expenditure. Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, supplies inventory, and prepaid expenses. \$563,000 has been reserved in the General Fund as investments for the bonds purchased by the City for the Senior Housing Limited Partnership. The Special Revenue and Debt Service fund types had reserves for notes receivable of \$777,140 and \$555,556, respectively. \$161,785 has also been reserved for debt service in the Debt Service fund type.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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

**L. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**M. Interfund Assets and Liabilities**

Receivables and payables arising between funds for goods provided or services rendered are classified as “due to / from other funds”. Short-term interfund loans between funds are classified as interfund receivables/ payables.

**N. Intergovernmental Revenues**

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues and entitlements, are recorded as receivables and revenues when measurable and available. Grants and entitlements must also meet timing, eligibility, and contingency requirements. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for proprietary fund operating purposes are recognized as nonoperating revenues in the accounting period in which they are earned and become measurable.

**O. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**P. Total Columns on Financial Statements**

Total columns on the general purpose financial statements are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 3 - DEPOSITS AND INVESTMENTS**

Monies held by the City are classified by State Statute into two categories. Active monies mean an amount of public monies determined to be necessary to meet current demand upon the City treasury. Active 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.

Monies held by the City which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Governmental National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly with the City;
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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the City lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. Bankers acceptances for a period not to exceed 270 days and high-grade commercial paper, the sum of which may not exceed twenty-five percent of the City's total average portfolio.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

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.

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

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

At year end, the City had \$2,080 in undeposited cash on hand which is included on the balance sheet of the City as "Petty Cash".

**Deposits.** At year-end, the carrying amount of the City's deposits was \$8,949,170 and the bank balance was \$9,416,750. Of the bank balance:

1. \$700,000 was covered by federal depository insurance.
2. \$8,249,170 was uninsured and uncollateralized. Although all statutory requirements for these deposits of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**Investments.** Governmental Accounting Standards Board Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires the City to categorize investments to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category			Carrying Value	Market Value
	1	2	3		
Investments in:					
STAR Ohio				\$2,949,026	\$2,949,026
Municipal Bonds	563,000			563,000	563,000
Total	<u>\$563,000</u>			<u>\$3,512,026</u>	<u>\$3,512,026</u>



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$11,900,276	563,000
Cash on Hand	(2,080)	0
STAR Ohio	<u>(2,949,026)</u>	<u>2,949,026</u>
GASB Statement 3	<u>\$ 8,949,170</u>	<u>\$ 3,512,026</u>

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual (Non-GAAP Basis)--All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts and disbursements. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP Basis).
4. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements by type.

	Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund
	GAAP basis	\$ 391,701	\$ 94,143	\$(202,137)
Increase (Decrease) due to:				
Encumbrances outstanding at year end (Budget Basis)	(181,090)	(440,562)	0	(858,853)
Change in accrued assets not recognized in budget-- January 1 to December 31	(89,853)	86,480	37,386	771,832
Change in accrued liabilities not recognized in budget-- January 1 to December 31	<u>(1,056,976)</u>	<u>68,015</u>	<u>0</u>	<u>12,189</u>
Budget Basis	<u><u>\$(936,218)</u></u>	<u><u>\$(191,924)</u></u>	<u><u>\$(164,751)</u></u>	<u><u>\$(684,666)</u></u>

**NOTE 5 - ACCOUNTABILITY**

**Fund Balance/Equity Deficits**

Proprietary fund type - The Sanitation Enterprise fund has a deficit unreserved retained earnings at December 31, 2001 of \$3,745,611 as a result of recording loan payable amounts on the Balance Sheet. Under the budgetary basis, proceeds from loans are recognized as revenue; therefore, deficit does not exist. The General fund provides operating transfers upon City Council's approval when cash is required not when accruals occur.

**NOTE 6 - TAXES**

**A. Property Tax**

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the City. Real property taxes collected in 2001 are levied after October 1, 2000 on the assessed value as of January 1, 2000, the lien date. Assessed values are established by State law at 35% of appraised market value. All property is required to be revalued every six years. 2000 real property taxes are collected in and intended to finance 2001 operations.

Public utility property taxes are assessed on tangible personal property at true value (normally 88 percent of cost). Public utility property taxes paid in 2001 became a lien December 31, 2000, are levied after October 1, 2000 and are collected in 2001 with real property taxes. 2001 tangible personal property taxes are levied after October 1, 2000 on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are 25 percent of actual value.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 6 – TAXES (Continued)**

**A. Property Tax (Continued)**

The full tax rates applied to real property for the fiscal year ended December 31, 2001, per taxing district, per \$1,000 of assessed valuation are as follows:

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

The full tax rate was all inside millage; therefore no adjustment of the rate for inflationary increase in property values was made. The effective tax rate was the same per \$1,000 of assessed valuation for real property classified as residential/agricultural and other property. Real property owners' tax bills were reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Real Property-2000 Valuation	
Residential/Agricultural	\$209,252,410
Commercial/Industrial	61,442,370
Public Utilities	2,656,380
Tangible Personal Property-2001 Valuation	
General	51,483,180
Public Utilities	<u>19,329,140</u>
Total Valuation	<u>\$344,163,480</u>

The Marion County Treasurer collects property tax on behalf of all taxing districts within Marion County including the City of Marion. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. The Marion County Auditor periodically remits to the City its portion of the taxes collected. Such collections are available only to pay current period liabilities. Collection of delinquent property taxes is the responsibility of the Marion County Auditor.

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable as of December 31, 2001. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not intended to finance 2001 operations. The receivable is therefore offset by a credit to deferred revenue. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 6 – TAXES (Continued)**

**B. City Income Tax**

The City levies an income tax of 1 3/4% on the gross salaries, wages and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a full credit not to exceed the City's tax rate for taxes paid to other Ohio municipalities.

Income tax receipts, net of the related administrative costs, are disbursed, appropriated and allocated in accordance with Ordinance Nos. 1998-41 and 1988-92.

**NOTE 7 - PROPERTY, PLANT AND EQUIPMENT**

The property, plant and equipment values were initially determined at December 31, 1987, assigning original acquisition costs for the majority of assets. In cases where information supporting original costs was not practicably determinable, estimated costs were developed using various valuation methods.

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Asset Account Group. Contributed fixed assets are recorded at fair market value at the date received. Costs associated with the construction of infrastructure fixed assets are not capitalized in the General Fixed Assets Account Group in accordance with the City's accounting policy and, accordingly, are not reflected as additions in the General Fixed Assets Account Group.

A summary of Proprietary Fund type property, plant and equipment at December 31, 2001, by class is as follows:

	Enterprise Funds	Internal Service Funds
Land	\$ 325,457	\$ 0
Land Improvements	1,836,594	0
Buildings and Structures	26,330,538	0
Machinery and Equipment	2,027,443	45,320
Furniture and Fixtures	59,067	5,288
Trucks, Autos & Buses	2,219,554	0
Construction-in-Progress	<u>12,255,474</u>	<u>102,442</u>
Total	<u>\$45,054,127</u>	<u>\$ 153,050</u>
Less-Accumulated Depreciation	12,075,790	27,853
Net Property, Plant And Equipment	<u>\$32,978,337</u>	<u>\$125,197</u>

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

**NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

Depreciation is provided using the straight-line basis over the estimated useful lives of the assets. 2001 depreciation expense was \$1,080,981. Depreciable lives used for property items within each property classification are as follows:

<u>Classification</u>	<u>Life</u>
Land Improvements	10-25 Years
Buildings and Structures	10-40 Years
Machinery and Equipment	5-15 Years
Furniture and Fixtures	10 Years
Trucks, Autos and Buses	5-10 Years

A summary of general fixed assets at December 31, 2001, by class and the changes therein during 2001, is as follows:

	<u>Balance</u> <u>1/1/01</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/01</u>
Land	\$ 1,438,387	\$ 0	\$ 0	\$ 1,438,387
Land Improvements	3,136,478	1,264,451	0	4,400,929
Buildings and Structures	7,001,224	11,490	97,094	6,915,620
Machinery and Equipment	2,706,011	334,748	175,090	2,865,669
Furniture and Fixtures	246,178	39,133	3,144	282,167
Trucks, Autos and Buses	2,837,318	197,247	143,675	2,890,890
Construction in Progress	1,331,100	894,923	1,317,261	908,762
Total	<u>\$18,696,696</u>	<u>\$2,741,992</u>	<u>\$1,736,264</u>	<u>\$19,702,424</u>

**NOTE 8 - DEBT OBLIGATIONS**

A listing of the changes in the debt of the City for the year ended December 31, 2001 follows:

	<u>Balance</u> <u>1/1/01</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/01</u>
General Long-Term Debt				
Compensated Absences	\$ 2,809,502	\$ 0	\$ 317,704	\$ 2,491,798
5.25% Taxable Housing Bonds, 1999 through 2019	582,000	0	19,000	563,000
5.30% Police and Fire Pension Bonds, 2000 through 2020	1,145,000	0	30,000	1,115,000
4.25% ODOT DRIP TIF Loan, 1998 through 2013	2,105,884	0	124,320	1,981,564
<u>Special Assessment Bonds:</u> 9 7/8% Street Improvement Bonds, 1983 through 2002	<u>70,000</u>	<u>0</u>	<u>35,000</u>	<u>35,000</u>

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

**NOTE 8 - DEBT OBLIGATIONS (Continued)**

	Balance <u>1/1/01</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/01</u>
Total General Long-Term Debt	<u>\$ 6,712,386</u>	<u>\$ 0</u>	<u>\$ 526,024</u>	<u>\$ 6,186,362</u>
Enterprise Debt				
4.56% OWDA Loan, due through 2017	1,971,942	0	89,915	1,882,027
0% OPWC Loan, due through 2015	490,000	0	35,000	455,000
0% OPWC Loan, due through 2014	141,451	0	10,478	130,973
0% OPWC Loan, due through 2022	0	119,186	0	119,186
0% OPWC Loan, due through 2022	0	190,429	0	190,429
4.35% OWDA Loan, due through 2016	2,242,151	0	108,710	2,133,441
3.20% OWDA Loan, due through 2005	768,928	0	768,928	0
1.50% OWDA Loan, due through 2022	0	13,364,507	0	13,364,507
Sanitary Sewer Bonds, 2001 through 2020	2,680,000	0	75,000	2,605,000
Storm Sewer Bonds, 2001 through 2020	<u>4,905,000</u>	<u>0</u>	<u>130,000</u>	<u>4,775,000</u>
Total Enterprise Debt	<u>\$13,199,472</u>	<u>\$13,674,122</u>	<u>\$1,218,031</u>	<u>\$25,655,563</u>

The ODOT loan and the police and fire general obligation bonds are direct obligations of the city for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the city. The taxable housing bonds are related to the Harding Centre Project. The bond is backed by the full faith and credit of Marion City. The Marion Senior Housing Limited Partnership entered into a loan agreement with the City obligating the Partnership to pay the City the amount necessary to retire the bond. This is reflected as a note receivable in the Debt Service Fund.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 8 - DEBT OBLIGATIONS (Continued)**

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

During 2001, the City entered into a loan agreement with the Ohio Environmental Protection Agency and the Ohio Water Development Authority for the construction of a wastewater treatment plant. As part of the loan agreement, the City agreed to participate in the Ohio EPA's Water Resource Restoration Sponsor Program (WRRSP) to provide an amount not to exceed \$6 million to North Coast Regional Council of Park Districts Erie Metroparks for an environmental improvement project. Under the loan agreement, the City's loan was restructured by (a) increasing the principal amount of the loan by an amount not to exceed \$6 million, and (2) reducing the loan's interest rate to a percentage that reflects a savings equal to the principal and interest cost of the WRRSP project. During 2001, the City received \$13,364,507 of loan proceeds which are included as loans payable in the enterprise fund type on the accompanying financial statements. Of those proceeds, \$4,477,937 was paid to Erie Metroparks for the WRRSP environmental project. This amount is included in the enterprise fund type other non-operating expense in the accompanying financial statements.

The Sanitary Sewer and Storm Sewer Bonds reported in the Sanitary Sewer and Storm Sewer Funds will be paid from charges for services revenue by those funds.

Outstanding special assessment bonds consist of street improvement bonds for which the full faith, credit and resources of the City are irrevocably pledged for the prompt payment of the principal and interest at maturity. However, it is anticipated that proceeds of tax assessments against individual property owners will finance this debt.

The City has the ability to issue \$17,140,991 of additional debt without obtaining voter approval.

A summary of the City's future debt service requirements as of December 31, 2001 follows:

Future Payments <u>Due In</u>	<u>General Long-Term Debt Account Group</u>		<u>Enterprise Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2002	\$219,660	\$171,647	\$ 508,989	\$ 548,972
2003	195,229	160,032	1,110,797	729,111
2004	203,038	151,341	1,144,215	699,345
2005	215,096	142,302	1,173,201	668,109
2006	222,414	132,703	1,207,777	635,893
2007-2020	<u>2,639,127</u>	<u>784,785</u>	<u>20,510,584</u>	<u>4,765,187</u>
Total	<u>\$3,694,564</u>	<u>\$1,542,810</u>	<u>\$ 25,655,563</u>	<u>\$8,046,617</u>

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

**NOTE 9 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains six Enterprise funds. The operations of these funds are accounted for, financed and recorded in a manner similar to that of private enterprise whereby it is the City's intent that the costs of providing these goods or services be financed primarily through user charges.

Segment Information for the year ended December 31, 2001 is as follows:

	<u>Transit</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Recycling</u>	<u>Swimming Pool</u>	<u>Storm Sewer</u>	<u>Total All Funds</u>
Operating Revenues	\$ 97,737	\$4,250,148	\$1,716,877	\$ 185,761	\$ 47,210	\$1,193,623	\$7,491,356
Depreciation	90,744	769,958	68,575	19,982	22,054	104,900	1,076,213
Operating Income (Loss)	(623,931)	1,089,368	227,255	(37,106)	(96,484)	(34,319)	524,783
Operating Grants	563,484	0	0	0	0	0	563,484
Operating Interfund							
Transfers (Net)	0	22,500	28,500	3,000	(81,400)	3,000	(24,400)
Net Income (Loss)	( 7,319)	(3,737,855)	125,962	(32,110)	(15,092)	255,603	(3,410,811)
Property, Plant & Equipment							
Additions	54,314	2,956,923	40,640	12,103	9,975	2,678,806	5,752,761
Dispositions	36,705	3,963,020	44,710	0	0	0	4,044,435
Net Working Capital	79,604	1,439,264	616,289	134,406	4,544	4,047,597	6,321,704
Total Assets	696,061	29,744,690	1,293,364	260,620	167,756	9,604,841	41,767,332
Bonds and Other Long-Term							
Liabilities Payable from							
Operating Revenues	67,101	18,823,624	4,923,776	25,936	0	4,894,185	28,734,622
Total Equity and Other							
Credits	\$591,815	\$ 8,635,676	\$(3,729,911)	\$210,486	\$166,885	\$4,690,468	\$10,565,419

**NOTE 10 – PENSION AND RETIREMENT PLANS**

The employees of the City are covered by either the Public Employees Retirement System of Ohio or the Ohio Police and Fire Pension Fund. The State of Ohio accounts for the activities of the retirement systems and the amounts of these funds are not reflected in the accompanying financial statements.

**A. Public Employees Retirement System (PERS)**

The Public Employees Retirement System (PERS) of Ohio is a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by making a written request to 277 East Town Street, Columbus, OH 43215-4642 or by calling (614)466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2001 was 8.5 percent for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1 percent. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9 percent. The 2001



**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 10 – PENSION AND RETIREMENT PLANS (Continued)**

employer contribution rate was 13.55 percent of covered payroll. The City's contributions for pension obligations to PERS for the years ended December 31, 2001, 2000, and 1999 were \$623,657, \$429,220, and \$515,503 respectively; 73 percent representing the paid contribution for 2001 and 100 percent for 2000 and 1999. \$166,822 representing the unpaid contribution for 2000 is recorded as a liability within the respective funds.

**B. Ohio Police and Fire Pension Fund (OP&F)**

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24% respectively for police officers and firefighters. Contributions are authorized by State Statute. Marion City's contributions to OP&F for the years ending December 31, 2001, 2000 and 1999 were \$839,132, \$852,428, and \$771,812, respectively, equal to the required contributions for each year.

**NOTE 11 – POSTEMPLOYMENT BENEFITS**

**A. Public Employees Retirement System (PERS)**

The Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion used to fund health care for the year.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)**

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

The number of active contributing participants was 411,076. The City's actual contributions for 2001 which were used to fund postemployment benefits were \$289,859. \$11,735,900 represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364,600 and \$2,628,700 respectively.

**B. Ohio Police and Fire Pension Fund (OP&F)**

The Ohio Police and Fire Pension Fund provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen whether or not the child is attending school or under the age of twenty-two if attending school full-time or on a two-thirds basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution is 24 percent of covered payroll.

The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals and states that healthcare costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution cost.

Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.25% and 7.5% of covered payroll in 2000 and 2001 respectively. The allocation is 7.75% in 2002. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2000, the date of the last actuarial valuation available, are 12,853 for Police and 10,037 for Firefighters. The City's actual contributions for 2001 that were used to pay post-employment benefits were \$222,367 for Police and \$220,477 for Firefighters. The fund's total health care expenses for the year ending December 31, 2000, the date of the last actuarial valuation available, was \$106,160,054, which was net of member contributions of \$5,657,431.

**NOTE 12 - COMPENSATED ABSENCES**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws.

Sick leave is earned at the rate of four and six-tenths hours for every eighty hours worked. Current policy permits sick leave to be accumulated without limit. Each full-time permanent non-bargaining employee with ten or more years of service with the City, is paid for one-third of the employee's earned unused sick leave

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 12 - COMPENSATED ABSENCES (Continued)**

upon retirement, up to a maximum of 45 days. All other full time employees unused sick leave paid upon retirement are governed by the respective bargaining unit agreement. Sick leave is accrued in the period in which the employee becomes eligible for payment. The liability is based on the sick leave accumulated at December 31 by those employees for whom it is probable they will become eligible to receive termination benefits in the future. The City records a liability for accumulated sick leave for employees that have 10 or more years of service.

For all employees other than Police and Fire Department employees and Water Pollution Control operators, vacation leave is earned at rates which vary depending upon length of service. Current policy permits vacation leave to be accumulated and carried forward to the successive year up to a maximum of fifteen weeks, with the Service/Safety Director's approval. For Police and Fire Department employees and Water Pollution Control operators, vacation leave and holidays are earned at rates which vary depending on length of service and standard work week up to a maximum of thirty-nine, eight-hour days per year for Fire Department employees on a forty hour work week, twenty-three, twenty-four-hour days per year for employees on a forty-eight-hour work week, thirty-seven eight hour days for Police Department employees on a forty hour work week, and thirty-seven eight and one half hour days for employees on a forty-two and one half hour work week. The City records a liability for all accumulated vacation leave.

For all employees other than Police and Fire Department employees in lieu of overtime pay, the full time permanent employee, may, upon request, receive and accrue compensatory time at the rate of time and one-half for the hours of overtime worked, up to a maximum accrual of eighty hours. Communications and Corrections officers, at their option may accumulate up to two hundred forty hours of compensatory time. Police officers, at their option, may accumulate up to four hundred eighty hours of compensatory time. Firefighters, at their option, may accumulate up to three hundred sixty hours of compensatory time.

For Governmental Funds, the current portion of unpaid compensated absences is that amount expected to be paid using available expendable resources, and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. At 12/31/00, the balance of the liability was \$2,809,502. At 12/31/01, the balance was \$2,491,798. An accrual of \$406,059 and \$5,262 for compensated absences payable is reported within the enterprise fund type and internal service fund type, respectively, at 12/31/01.

**NOTE 13 - CONSTRUCTION COMMITMENTS**

As of 12/31/01, the City had the following outstanding construction commitments:

Sidewalks	\$ 7,545
Street Improvement	672,120
WWTP Improvement Projects	<u>11,673,335</u>
Total Construction Commitments	<u>\$12,353,000</u>

**NOTE 14 - PENDING LITIGATION, CLAIMS, ETC.**

The City is the defendant in various lawsuits. The majority are about to be settled. In the opinion of management, the ultimate liabilities, if any, resulting from such lawsuits and claims will not have a material adverse effect on the financial condition of the City.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 15 - LANDFILL POSTCLOSURE CARE COSTS**

State and Federal laws and regulations require that the City of Marion place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The landfill stopped accepting waste in 1992. An expense provision and related liability were recognized in 1993 based on the estimated postclosure care costs to be incurred after the date the landfill stopped accepting waste. The estimated liability for landfill postclosure care costs has a balance of \$2,673,000 as of December 31, 2001, which is based on 100% usage (filled) of the landfill. The estimated total current costs of the landfill postclosure care (\$2,673,000) are based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of December 31, 2001. However, the actual cost of postclosure care may be higher or lower due to inflation, changes in technology, or changes in landfill laws and regulations.

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

**NOTE 16 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of or damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City has entered into contracts with the Ohio Municipal League Joint Self-Insurance Pool for insurance with the following amounts of coverage and deductibles:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Property (Building and Contents)	38,607,031	1,000
Earthquake	500,000	1,000
Electronic Data and Equipment	331,896	250
Valuable Papers and Records	100,000	1,000
Extra Expense	50,000	1,000
Employee Benefits Liability (per occurrence)	1,000,000	0
Employee Benefits Liability (aggregate)	5,000,000	5,000
Public Official Liability	5,000,000	5,000
Police Professional Liability	5,000,000	5,000
General Liability (per occurrence)	5,000,000	5,000
General Liability (aggregate)	5,000,000	5,000
Contractors Equipment	650,143	250
Auto Fleet liability/Physical Damage	5,000,000	100/500/1000
EMT Professional Liability	5,000,000	5,000
Miscellaneous Tools	25,000	250
Uninsured Motorists	40,000	0
Stop Gap	100,000	0

Settled claims have not exceeded commercial coverage in any of the past three years and there have been no significant reductions in coverage from last year.

**CITY OF MARION  
MARION COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 (Continued)**

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**NOTE 17 - RISK MANAGEMENT (Continued)**

The Ohio Municipal League Joint Self-Insurance Pool (OML) is a public entity shared risk pool. OML was formed as an unincorporated not-for-profit association and operates various insurance programs. Each member participates in the election of the Board of Trustees by mail ballot.

Participation in OML is by written application subject to the approval of the Board of Trustees and the payment of premiums. A member may withdraw from a program by giving a notice of sixty days. Financial information may be obtained from JWF Specialty Co., Inc., P.O. Box 1684, Indianapolis, IN 46206.

**NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year 2001, the City of Marion has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Reporting for Certain Shared Nonexchange Revenues."

**NOTE 19 – SUBSEQUENT EVENTS**

As of July 31, 2002, the City received \$6,271,149 of additional loan proceeds, \$74,006 of which was paid to Erie Metroparks. An additional \$7,774,344 has been approved for the wastewater treatment plant project.

In 2002, the City also issued \$1,780,000 of notes payable for construction of a central garage.

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**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2001**

<b>Federal Grantor</b> <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Disbursements
<b><u>UNITED STATES DEPARTMENT OF AGRICULTURE</u></b>			
<i>Passed through Ohio Department of Health</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	214-D	\$232,277
<b>Total U.S. Department of Agriculture</b>			<b>232,277</b>
<b><u>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant - State's Program	14.228	B-E-01-047-1	156,489
Community Development Block Grant - State's Program	14.228	A-C-00-142-1	171,447
Community Development Block Grant - State's Program	14.228	A-F-00-142-1	179,079
Community Development Block Grant - State's Program	14.228	A-F-99-142-1	90,660
Total Community Development Block Grant - State's Program			<b>597,675</b>
Home Investment Partnership Program	14.239	A-C-00-142-2	200,328
<b>Total - U.S. Department of Housing and Urban Development</b>			<b>798,003</b>
<b><u>UNITED STATES DEPARTMENT OF JUSTICE</u></b>			
Public Safety Partnership and Community Policing Grants	16.710		132,754
Local Law Enforcement Block Grants Program	16.592		1,260
Local Law Enforcement Block Grants Program	16.592		15,388
Local Law Enforcement Block Grants Program	16.592		8,922
Total Local Law Enforcement Block Grants Program			<b>25,570</b>
Juvenile Accountability Incentive Block Grants	16.523		3,550
Juvenile Accountability Incentive Block Grants	16.523		14,936
Juvenile Accountability Incentive Block Grants	16.523		6,165
Total Juvenile Accountability Incentive Block Grants			<b>24,651</b>
Violence Against Women Formula Grants	16.588		21,970
Violence Against Women Formula Grants	16.588		73,120
Total Violence Against Women Formula Grants			<b>95,090</b>
<b>Total - U.S. Department of Justice</b>			<b>278,065</b>
<b><u>UNITED STATES DEPARTMENT OF TRANSPORTATION</u></b>			
Airport Improvement Program	20.106		97,628
<i>Passed Through Ohio Department of Transportation</i>			
Federal Transit Capital and Operating Assistance Formula Grant	20.507	RPT-4051-016-991	284,040
<b>Total - U.S. Department of Transportation</b>			<b>381,668</b>
<b><u>UNITED STATES DEPARTMENT OF EDUCATION</u></b>			
<i>Passed Through Ohio Department of Health</i>			
Special Education - Grant for Infants and Families with Disabilities	84.181	214-E	69,449
<b>Total - U.S. Department of Education</b>			<b>69,449</b>
<b><u>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
<i>Passed Through Ohio Department of Aging</i>			
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	N/A	51,794
Special Programs for the Aging - Title III, Part E Grants for Supportive Services and Senior Centers	93.044	N/A	3,417
Total Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers			<b>55,211</b>
<i>Passed Through Delaware City-County Health Department</i>			
Preventive Health and Health Services Block Grant	93.991	21-1-001-2-ED-01	11,247
<i>Passed through Ohio Department of Health</i>			
Preventive Health and Health Services Block Grant	93.991	214-I	4,669
Total Preventive Health and Health Services Block Grant			<b>15,916</b>
<b>Total - U.S. Department of Health and Human Services</b>			<b>71,127</b>
<b>TOTAL FEDERAL AWARDS EXPENDITURES</b>			<b>\$1,830,589</b>

**CITY OF MARION  
MARION COUNTY**

**FISCAL YEAR ENDED DECEMBER 31, 2001  
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 2 – COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS**

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by H.U.D. but are not included as disbursements on the schedule.

These loans are collateralized by liens placed on personal property. At December 31, 2000, the gross amount of loans outstanding under this program was \$854,974, including \$75,834 of delinquent amounts due.

**NOTE 3 – MATCHING REQUIREMENTS**

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

**NOTE 4 – PASS THROUGH ENTITY NUMBERS**

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

**NOTE 5 – REPORT REISSUANCE**

The City inadvertently omitted the Home Investment Partnership Program (CFDA # 14.239), and a portion of the Community Development Block Grant – State's Program (CFDA #14.228) from the City's Schedule of Federal Awards Expenditures included in the audit report dated August 9, 2002, for the year ended December 31, 2001. Since the issuance of that report on September 17, 2002, the City discovered the omission and made the appropriate correction to the Schedule included herein.





## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Marion  
Marion County  
233 West Center Street  
Marion, Ohio 43301

To the Members of City Council:

We have audited the financial statements of the City of Marion, Marion County, Ohio, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated August 9, 2002, wherein we noted the City adopted *Governmental Accounting Standard Board Statements No. 33 and 36*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain other matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 9, 2002.

35 N. Fourth St. / Second Floor / Columbus, OH 43215  
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This report is intended for the information and use of the finance committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**BETTY MONTGOMERY**  
Auditor of State

August 9, 2002



## Auditor of State Betty Montgomery

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

City of Marion  
Marion County  
233 West Center Street  
Marion, Ohio 43301

To the Members of 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 are applicable to each of its major federal programs for the year ended December 31, 2001. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2001.

#### Internal Control Over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the finance committee, management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

The Summary of Auditor's Results Section of the accompanying Schedule of Findings (the Summary) replaces the Summary in the City's reporting package for the year ended December 31, 2001. The Summary was revised to include the Public Safety Partnership and Community Policing Grants as a major program for the year ended December 31, 2001.

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

**BETTY MONTGOMERY**  
Auditor of State

August 9, 2002, except for the last paragraph which is dated April 28, 2003

**CITY OF MARION  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA #20.106 – Airport Improvement Program CFDA #20.507 – Federal Transit Capital and Operating Assistance Formula Grant CFDA #16.710 – Public Safety Partnership and Community Policing Grants
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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**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  
JUNE 3, 2003**