

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF MARION
GRANT COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/25/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Cindy Wright (Vacant) Tameria N. Miller	01-01-12 to 03-08-13 03-09-13 to 03-31-13 04-01-13 to 12-31-13
Clerk	Kathleen A. Kiley	01-01-12 to 12-31-15
Mayor	Wayne W. Seybold	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Thomas J. Reto	01-01-12 to 12-31-13
President of the Common Council	Donald W. Batchelor	01-01-12 to 12-31-13
Utilities Director	William M. McElhaney John C. Binkerd	01-01-12 to 08-31-12 09-01-12 to 12-31-13



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF MARION, GRANT COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Marion (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 13, 2013, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, and Schedule of Leases and Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.



Bruce Hartman
State Examiner

August 13, 2013



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

TO: THE OFFICIALS OF THE CITY OF MARION, GRANT COUNTY, INDIANA

We have audited, 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, the financial statement of the City of Marion (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated August 13, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

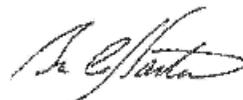
determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2.

City of Marion's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 13, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF MARION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 159,416	\$ 27,045,347	\$ 26,892,245	\$ 312,518
Motor Vehicle Highway	329,324	2,242,228	2,547,756	23,796
Local Road and Street	47,666	244,245	195,542	96,369
Aviation	75,653	159,565	235,218	-
Park Non Reverting	91,584	684,124	745,134	30,574
Employees Flexible Spending Account	53,574	95,290	105,576	43,288
Marion Economic Development Commission	6,668	425	-	7,093
Parking Enforcement	9,879	4,358	-	14,237
IDOT	-	17,200	17,200	-
Abandoned Vehicles	382	5,321	4,204	1,499
Local Law Continuing Education	6,547	16,259	10,132	12,674
Unsafe Building	19,134	317,700	156,298	180,536
Parks and Recreation	84,057	531,814	576,678	39,193
User Fee	16,634	7,200	-	23,834
Rainy Day	343,948	-	333,542	10,406
County Economic Development Income Tax	19,709	903,741	740,275	183,175
TIF Allocation	1,125,185	4,136,432	4,060,551	1,201,066
Cumulative Capital Improvement	109,561	79,430	29,521	159,470
Cumulative Capital Development	108,315	374,786	288,259	194,842
1925 Police Pension	60,084	1,020,417	1,080,501	-
1937 Fire Pension	22,679	1,384,002	1,396,740	9,941
County Share Clerk's Fees	3,150	20,758	17,343	6,565
City Donation	3,210	-	3,210	-
Animal Control Non Reverting	(92,453)	49,604	95,432	(138,281)
Reduce Drunk Driving	5,742	15,472	16,636	4,578
Fire Department Donations	8,059	836	268	8,627
Police Department Donations	14,720	40,780	36,766	18,734
Environmental Public Nuisance	6,802	5,222	5,588	6,436
Victim's Advocacy Grant	7,624	29,908	34,263	3,269
Emergency Gas Award	2,900	-	2,900	-
Juvenile Accountability Grant	221	-	221	-
Group Gasoline	-	409,064	409,064	-
Public Works Scrapping	3,142	-	-	3,142
Supplemental Adult Probation Services	6,887	6,374	2,930	10,331
CSA Grant	11,000	109,960	114,460	6,500
Neighborhood Association Contributions	334	-	50	284
Payroll Allstate Cancer PT	-	585	585	-
Washington Street Economic Development	256	-	256	-
Investment Incentive Recaptured	1,979	12,261	14,138	102
2005 Park Bond Construction	310	-	96	214
City Bond and Interest	34,778	290,526	325,304	-
2006 Bond Anticipation Note Madjec	4	-	-	4
Park Bond	42,215	586,023	628,237	1
Industrial Development CREED	1,320,378	2,035,310	1,048,072	2,307,616
Airport Capital Improvement	345,030	1,560,436	1,652,297	253,169
Assistance to Firefighters	56,742	95,051	151,793	-
BAN 2010	-	203,776	203,775	1
Justice Assistance Grant	332	2,995	2,995	332
Waterloop Improvements	71	-	71	-
2011 Bond	292,071	-	292,032	39
Special Projects Engineer	25	-	25	-
COPS	953	234,780	169,924	65,809
Tier 2 Bus Terminal Renovation	-	463,467	463,467	-
Insurance Reserve	(2,088,367)	3,517,951	6,458,068	(5,028,484)
Court Cost Due County	4,830	33,246	28,520	9,556
Payroll Net	-	137,684	137,684	-
Payroll Federal	-	1,478,924	1,478,924	-
Payroll FICA	-	407,421	407,421	-
Payroll Medicare	-	304,703	304,703	-
Payroll State	-	444,773	444,773	-
Payroll County	-	233,687	233,687	-
Payroll Civil PERF	-	5,674	5,674	-
Payroll Voluntary PERF	-	103,334	103,334	-
Payroll Direct Deposit	-	9,543,312	9,543,312	-
Payroll AFLAC Accident PT	-	9,210	9,210	-

The notes to the financial statement are an integral part of this statement.

CITY OF MARION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
Payroll AFLAC Cancer PT	-	6,254	6,254	-
Payroll AFLAC PRP PT	-	1,294	1,294	-
Payroll AFLAC Dental Employee	-	109,955	109,955	-
Payroll AFLAC Disability	-	8,749	8,749	-
Payroll AFLAC Life Insurance	-	2,586	2,586	-
Payroll Allstate Dental	-	236	236	-
Allstate Term Life	-	145	145	-
Payroll Allstate Life	-	1,106	1,106	-
Payroll Anthem Insurance	-	111,493	111,493	-
Payroll Flex Reimbursement	-	21,189	21,189	-
Payroll Cincinnati Life Insurance	-	3,403	3,403	-
Payroll Transamerica	-	2,299	2,299	-
Payroll Fire Union Dues	-	27,770	27,770	-
Payroll Police Union Dues	-	19,432	19,432	-
Payroll Transportation Union	-	4,928	4,928	-
Payroll Street Union Dues	-	7,649	7,649	-
Payroll YMCA Dues	-	25,377	25,377	-
Payroll Chaplaincy Program	-	6,238	6,238	-
Payroll Firefighters PAC	-	4,724	4,724	-
Payroll United Way	-	4,265	4,265	-
Payroll Credit Union	-	594,158	594,158	-
Payroll Child Support Fee	-	891	891	-
Payroll Miscellaneous Fees	-	266	266	-
Payroll Child Support	-	128,199	128,199	-
Payroll Wilson Madison County	-	4,290	4,290	-
Payroll Garnishment	-	13,296	13,296	-
Payroll Loper/Department of Education	-	3,265	3,265	-
Payroll Madison County Clerk	-	3,146	3,146	-
Payroll Delinquent County Taxes	-	4,927	4,927	-
Payroll Social Security Administration	-	3,360	3,360	-
State Annual Child Support Fee	-	660	660	-
City of Marion-Vehicles	-	35,610	35,610	-
City of Marion-Cell Phones	-	8,460	8,460	-
Grange Life Insurance	-	20,368	20,368	-
OneAmerica	-	96,059	96,059	-
Monumental Life	-	2,618	2,618	-
IRS Levy MC	-	6,000	6,000	-
Liberty National	-	18,325	18,325	-
D. Aikman	-	3,120	3,120	-
CAIC Accident	-	18,352	18,352	-
CAIC Critical Illness	-	19,324	19,324	-
Allstate Critical Illness	-	205	205	-
Allen Superior Court	-	609	609	-
ACS Support	-	306	306	-
US Department of Treasury	-	258	258	-
Storm Water Operating	160,631	1,030,245	1,114,643	76,233
Storm Water Depreciation	149,635	131,503	160,000	121,138
Storm Water Depreciation Equipment Reserve	258,201	60,000	246,200	72,001
Storm Water Bond Reserve	429,920	-	-	429,920
Storm Water Construction	373,704	776,013	911,508	238,209
Stormwater Bond and Interest	275,609	375,723	389,959	261,373
Wastewater Operation	206,681	2,693,577	2,456,990	443,268
Wastewater Depreciation	215,221	761,291	666,462	310,050
Wastewater Customer Deposit	216,225	68,082	57,902	226,405
Wastewater Construction	500,154	1,258,164	902,262	856,056
Water Operating	628,852	3,383,179	3,698,333	313,698
Water Depreciation	743,824	1,213,882	1,647,257	310,449
Water Consumer Deposit	237,436	68,865	61,057	245,244
Water Quail Hollow	21,700	-	-	21,700
Water Construction	576,368	1,168,422	946,971	797,819
Totals	<u>\$ 7,677,105</u>	<u>\$ 76,007,101</u>	<u>\$ 78,877,588</u>	<u>\$ 4,806,618</u>

The notes to the financial statement are an integral part of this statement.

CITY OF MARION
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF MARION
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

CITY OF MARION
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

CITY OF MARION
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

CITY OF MARION
NOTES TO FINANCIAL STATEMENT
(Continued)

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

CITY OF MARION
NOTES TO FINANCIAL STATEMENT
(Continued)

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of the cost of operation exceeding the receipts generated, or plan claims exceeding plan contributions.

Note 8. Other Postemployment Benefits

The City provides eligible retirees and their spouses postemployment health benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the City on or after 20 years of service or incurs a job related disability. The City provided 100 percent of these postemployment benefits during 2012. During 2013, the City began paying a fixed monthly amount per eligible retiree, spouse, and family. Disbursements for these postemployment benefits were recognized on a pay-as-you-go basis. These benefits posed a liability to the City during 2012. Information regarding the benefits can be obtained by contacting the City.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road and Street	Aviation	Park Non Reverting	Employees Flexible Spending Account	Marion Economic Development Commission
Cash and investments - beginning	\$ 159,416	\$ 329,324	\$ 47,666	\$ 75,653	\$ 91,584	\$ 53,574	\$ 6,668
Receipts:							
Taxes	10,871,464	947,989	-	110,323	-	-	-
Licenses and permits	106,248	5,075	-	-	-	-	-
Intergovernmental	4,654,934	853,309	243,495	5,242	-	-	-
Charges for services	1,663,562	-	-	-	655,706	-	-
Fines and forfeits	92,312	-	-	-	-	-	425
Utility fees	-	-	-	-	-	-	-
Other receipts	9,656,827	435,855	750	44,000	28,418	95,290	-
Total receipts	<u>27,045,347</u>	<u>2,242,228</u>	<u>244,245</u>	<u>159,565</u>	<u>684,124</u>	<u>95,290</u>	<u>425</u>
Disbursements:							
Personal services	13,281,913	1,556,417	-	-	242,075	3,181	-
Supplies	461,646	336,373	-	1,832	361,643	-	-
Other services and charges	3,528,540	219,966	195,542	168,386	140,932	-	-
Debt service - principal and interest	8,116,921	435,000	-	44,000	-	-	-
Capital outlay	54,343	-	-	21,000	-	-	-
Other disbursements	1,448,882	-	-	-	484	102,395	-
Total disbursements	<u>26,892,245</u>	<u>2,547,756</u>	<u>195,542</u>	<u>235,218</u>	<u>745,134</u>	<u>105,576</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>153,102</u>	<u>(305,528)</u>	<u>48,703</u>	<u>(75,653)</u>	<u>(61,010)</u>	<u>(10,286)</u>	<u>425</u>
Cash and investments - ending	<u>\$ 312,518</u>	<u>\$ 23,796</u>	<u>\$ 96,369</u>	<u>\$ -</u>	<u>\$ 30,574</u>	<u>\$ 43,288</u>	<u>\$ 7,093</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Parking Enforcement	IDOT	Abandoned Vehicles	Local Law Continuing Education	Unsafe Building	Parks and Recreation	User Fee
Cash and investments - beginning	\$ 9,879	\$ -	\$ 382	\$ 6,547	\$ 19,134	\$ 84,057	\$ 16,634
Receipts:							
Taxes	-	-	-	-	-	402,679	-
Licenses and permits	-	-	-	9,577	-	-	-
Intergovernmental	-	17,200	-	-	-	19,135	-
Charges for services	4,358	-	5,321	5,415	-	-	7,200
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	1,267	317,700	110,000	-
Total receipts	<u>4,358</u>	<u>17,200</u>	<u>5,321</u>	<u>16,259</u>	<u>317,700</u>	<u>531,814</u>	<u>7,200</u>
Disbursements:							
Personal services	-	-	-	-	-	306,498	-
Supplies	-	-	-	2,518	-	45,883	-
Other services and charges	-	17,200	4,204	7,614	156,298	114,297	-
Debt service - principal and interest	-	-	-	-	-	110,000	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>17,200</u>	<u>4,204</u>	<u>10,132</u>	<u>156,298</u>	<u>576,678</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>4,358</u>	<u>-</u>	<u>1,117</u>	<u>6,127</u>	<u>161,402</u>	<u>(44,864)</u>	<u>7,200</u>
Cash and investments - ending	<u>\$ 14,237</u>	<u>\$ -</u>	<u>\$ 1,499</u>	<u>\$ 12,674</u>	<u>\$ 180,536</u>	<u>\$ 39,193</u>	<u>\$ 23,834</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Rainy Day	County Economic Development Income Tax	TIF Allocation	Cumulative Capital Improvement	Cumulative Capital Development	1925 Police Pension	1937 Fire Pension
Cash and investments - beginning	\$ 343,948	\$ 19,709	\$ 1,125,185	\$ 109,561	\$ 108,315	\$ 60,084	\$ 22,679
Receipts:							
Taxes	-	-	3,822,278	-	271,867	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	903,741	-	79,430	12,919	1,020,417	1,384,002
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	314,154	-	90,000	-	-
Total receipts	<u>-</u>	<u>903,741</u>	<u>4,136,432</u>	<u>79,430</u>	<u>374,786</u>	<u>1,020,417</u>	<u>1,384,002</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	639,350	4,060,551	-	138,233	1,080,501	1,396,740
Debt service - principal and interest	-	-	-	-	90,000	-	-
Capital outlay	-	-	-	29,521	60,026	-	-
Other disbursements	333,542	100,925	-	-	-	-	-
Total disbursements	<u>333,542</u>	<u>740,275</u>	<u>4,060,551</u>	<u>29,521</u>	<u>288,259</u>	<u>1,080,501</u>	<u>1,396,740</u>
Excess (deficiency) of receipts over disbursements	<u>(333,542)</u>	<u>163,466</u>	<u>75,881</u>	<u>49,909</u>	<u>86,527</u>	<u>(60,084)</u>	<u>(12,738)</u>
Cash and investments - ending	<u>\$ 10,406</u>	<u>\$ 183,175</u>	<u>\$ 1,201,066</u>	<u>\$ 159,470</u>	<u>\$ 194,842</u>	<u>\$ -</u>	<u>\$ 9,941</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	County Share Clerk's Fees	City Donation	Animal Control Non Reverting	Reduce Drunk Driving	Fire Department Donations	Police Department Donations	Environmental Public Nuisance
Cash and investments - beginning	\$ 3,150	\$ 3,210	\$ (92,453)	\$ 5,742	\$ 8,059	\$ 14,720	\$ 6,802
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	15,472	-	2,690	-
Charges for services	-	-	-	-	836	-	5,222
Fines and forfeits	20,758	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	49,604	-	-	38,090	-
Total receipts	<u>20,758</u>	<u>-</u>	<u>49,604</u>	<u>15,472</u>	<u>836</u>	<u>40,780</u>	<u>5,222</u>
Disbursements:							
Personal services	-	-	-	16,636	-	-	-
Supplies	-	-	21,447	-	-	35,738	-
Other services and charges	-	-	73,985	-	268	1,028	5,588
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	17,343	3,210	-	-	-	-	-
Total disbursements	<u>17,343</u>	<u>3,210</u>	<u>95,432</u>	<u>16,636</u>	<u>268</u>	<u>36,766</u>	<u>5,588</u>
Excess (deficiency) of receipts over disbursements	<u>3,415</u>	<u>(3,210)</u>	<u>(45,828)</u>	<u>(1,164)</u>	<u>568</u>	<u>4,014</u>	<u>(366)</u>
Cash and investments - ending	<u>\$ 6,565</u>	<u>\$ -</u>	<u>\$ (138,281)</u>	<u>\$ 4,578</u>	<u>\$ 8,627</u>	<u>\$ 18,734</u>	<u>\$ 6,436</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Victim's Advocacy Grant	Emergency Gas Award	Juvenile Accountability Grant	Group Gasoline	Public Works Scrapping	Supplemental Adult Probation Services	CSA Grant
Cash and investments - beginning	\$ 7,624	\$ 2,900	\$ 221	\$ -	\$ 3,142	\$ 6,887	\$ 11,000
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	29,908	-	-	-	-	-	109,960
Charges for services	-	-	-	-	-	6,374	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	409,064	-	-	-
Total receipts	<u>29,908</u>	<u>-</u>	<u>-</u>	<u>409,064</u>	<u>-</u>	<u>6,374</u>	<u>109,960</u>
Disbursements:							
Personal services	34,263	2,900	-	-	-	-	-
Supplies	-	-	-	409,064	-	325	-
Other services and charges	-	-	-	-	-	2,605	114,460
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	-	-	221	-	-	-	-
Total disbursements	<u>34,263</u>	<u>2,900</u>	<u>221</u>	<u>409,064</u>	<u>-</u>	<u>2,930</u>	<u>114,460</u>
Excess (deficiency) of receipts over disbursements	<u>(4,355)</u>	<u>(2,900)</u>	<u>(221)</u>	<u>-</u>	<u>-</u>	<u>3,444</u>	<u>(4,500)</u>
Cash and investments - ending	<u>\$ 3,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,142</u>	<u>\$ 10,331</u>	<u>\$ 6,500</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Neighborhood Association Contributions	Payroll Allstate Cancer PT	Washington Street Economic Development	Investment Incentive Recaptured	2005 Park Bond Construction	City Bond and Interest	2006 Bond Anticipation Note Madjec
Cash and investments - beginning	\$ 334	\$ -	\$ 256	\$ 1,979	\$ 310	\$ 34,778	\$ 4
Receipts:							
Taxes	-	-	-	-	-	148,148	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	10,378	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	585	-	12,261	-	132,000	-
Total receipts	-	585	-	12,261	-	290,526	-
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	50	-	-	63	96	193,304	-
Debt service - principal and interest	-	-	-	-	-	132,000	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	-	585	256	14,075	-	-	-
Total disbursements	50	585	256	14,138	96	325,304	-
Excess (deficiency) of receipts over disbursements	(50)	-	(256)	(1,877)	(96)	(34,778)	-
Cash and investments - ending	\$ 284	\$ -	\$ -	\$ 102	\$ 214	\$ -	\$ 4

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Park Bond	Industrial Development CREED	Airport Capital Improvement	Assistance to Firefighters	BAN 2010	Justice Assistance Grant	Waterloop Improvements
Cash and investments - beginning	\$ 42,215	\$ 1,320,378	\$ 345,030	\$ 56,742	\$ -	\$ 332	\$ 71
Receipts:							
Taxes	314,420	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	11,603	735,310	1,559,803	95,051	-	2,995	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	260,000	1,300,000	633	-	203,776	-	-
Total receipts	<u>586,023</u>	<u>2,035,310</u>	<u>1,560,436</u>	<u>95,051</u>	<u>203,776</u>	<u>2,995</u>	<u>-</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	368,237	1,048,072	119,231	-	-	-	-
Debt service - principal and interest	260,000	-	-	-	-	-	-
Capital outlay	-	-	1,533,066	-	-	-	-
Other disbursements	-	-	-	151,793	203,775	2,995	71
Total disbursements	<u>628,237</u>	<u>1,048,072</u>	<u>1,652,297</u>	<u>151,793</u>	<u>203,775</u>	<u>2,995</u>	<u>71</u>
Excess (deficiency) of receipts over disbursements	<u>(42,214)</u>	<u>987,238</u>	<u>(91,861)</u>	<u>(56,742)</u>	<u>1</u>	<u>-</u>	<u>(71)</u>
Cash and investments - ending	<u>\$ 1</u>	<u>\$ 2,307,616</u>	<u>\$ 253,169</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 332</u>	<u>\$ -</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	2011 Bond	Special Projects Engineer	COPS	Tier 2 Bus Terminal Renovation	Insurance Reserve	Court Cost Due County	Payroll Net
Cash and investments - beginning	\$ 292,071	\$ 25	\$ 953	\$ -	\$ (2,088,367)	\$ 4,830	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	234,780	463,467	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	33,246	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	-	3,517,951	-	137,684
Total receipts	<u>-</u>	<u>-</u>	<u>234,780</u>	<u>463,467</u>	<u>3,517,951</u>	<u>33,246</u>	<u>137,684</u>
Disbursements:							
Personal services	-	-	169,924	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	120	-	-	463,467	6,458,068	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	291,912	25	-	-	-	28,520	137,684
Total disbursements	<u>292,032</u>	<u>25</u>	<u>169,924</u>	<u>463,467</u>	<u>6,458,068</u>	<u>28,520</u>	<u>137,684</u>
Excess (deficiency) of receipts over disbursements	<u>(292,032)</u>	<u>(25)</u>	<u>64,856</u>	<u>-</u>	<u>(2,940,117)</u>	<u>4,726</u>	<u>-</u>
Cash and investments - ending	<u>\$ 39</u>	<u>\$ -</u>	<u>\$ 65,809</u>	<u>\$ -</u>	<u>\$ (5,028,484)</u>	<u>\$ 9,556</u>	<u>\$ -</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Payroll Federal	Payroll FICA	Payroll Medicare	Payroll State	Payroll County	Payroll Civil PERF	Payroll Voluntary PERF
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	1,478,924	407,421	304,703	444,773	233,687	5,674	103,334
Total receipts	<u>1,478,924</u>	<u>407,421</u>	<u>304,703</u>	<u>444,773</u>	<u>233,687</u>	<u>5,674</u>	<u>103,334</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	1,478,924	407,421	304,703	444,773	233,687	5,674	103,334
Total disbursements	<u>1,478,924</u>	<u>407,421</u>	<u>304,703</u>	<u>444,773</u>	<u>233,687</u>	<u>5,674</u>	<u>103,334</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Payroll Direct Deposit	Payroll AFLAC Accident PT	Payroll AFLAC Cancer PT	Payroll AFLAC PRP PT	Payroll AFLAC Dental Employee	Payroll AFLAC Disability	Payroll AFLAC Life Insurance
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	9,543,312	9,210	6,254	1,294	109,955	8,749	2,586
Total receipts	<u>9,543,312</u>	<u>9,210</u>	<u>6,254</u>	<u>1,294</u>	<u>109,955</u>	<u>8,749</u>	<u>2,586</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	9,543,312	9,210	6,254	1,294	109,955	8,749	2,586
Total disbursements	<u>9,543,312</u>	<u>9,210</u>	<u>6,254</u>	<u>1,294</u>	<u>109,955</u>	<u>8,749</u>	<u>2,586</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Payroll Allstate Dental	Allstate Term Life	Payroll Allstate Life	Payroll Anthem Insurance	Payroll Flex Reimbursement	Payroll Cincinnati Life Insurance	Payroll Transamerica
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	236	145	1,106	111,493	21,189	3,403	2,299
Total receipts	<u>236</u>	<u>145</u>	<u>1,106</u>	<u>111,493</u>	<u>21,189</u>	<u>3,403</u>	<u>2,299</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	236	145	1,106	111,493	21,189	3,403	2,299
Total disbursements	<u>236</u>	<u>145</u>	<u>1,106</u>	<u>111,493</u>	<u>21,189</u>	<u>3,403</u>	<u>2,299</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Payroll Fire Union Dues	Payroll Police Union Dues	Payroll Transportation Union	Payroll Street Union Dues	Payroll YMCA Dues	Payroll Chaplaincy Program	Payroll Firefighters PAC
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	27,770	19,432	4,928	7,649	25,377	6,238	4,724
Total receipts	<u>27,770</u>	<u>19,432</u>	<u>4,928</u>	<u>7,649</u>	<u>25,377</u>	<u>6,238</u>	<u>4,724</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	27,770	19,432	4,928	7,649	25,377	6,238	4,724
Total disbursements	<u>27,770</u>	<u>19,432</u>	<u>4,928</u>	<u>7,649</u>	<u>25,377</u>	<u>6,238</u>	<u>4,724</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Payroll United Way	Payroll Credit Union	Payroll Child Support Fee	Payroll Miscellaneous Fees	Payroll Child Support	Payroll Wilson Madison County	Payroll Garnishment
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	4,265	594,158	891	266	128,199	4,290	13,296
Total receipts	<u>4,265</u>	<u>594,158</u>	<u>891</u>	<u>266</u>	<u>128,199</u>	<u>4,290</u>	<u>13,296</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	4,265	594,158	891	266	128,199	4,290	13,296
Total disbursements	<u>4,265</u>	<u>594,158</u>	<u>891</u>	<u>266</u>	<u>128,199</u>	<u>4,290</u>	<u>13,296</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Payroll Loper/ Department of Education	Payroll Madison County Clerk	Payroll Delinquent County Taxes	Payroll Social Security Administration	State Annual Child Support Fee	City of Marion - Vehicles	City of Marion-Cell Phones
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	3,265	3,146	4,927	3,360	660	35,610	8,460
Total receipts	<u>3,265</u>	<u>3,146</u>	<u>4,927</u>	<u>3,360</u>	<u>660</u>	<u>35,610</u>	<u>8,460</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	3,265	3,146	4,927	3,360	660	35,610	8,460
Total disbursements	<u>3,265</u>	<u>3,146</u>	<u>4,927</u>	<u>3,360</u>	<u>660</u>	<u>35,610</u>	<u>8,460</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Grange Life Insurance	OneAmerica	Monumental Life	IRS Levy MC	Liberty National	D. Aikman	CAIC Accident
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	20,368	96,059	2,618	6,000	18,325	3,120	18,352
Total receipts	<u>20,368</u>	<u>96,059</u>	<u>2,618</u>	<u>6,000</u>	<u>18,325</u>	<u>3,120</u>	<u>18,352</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	20,368	96,059	2,618	6,000	18,325	3,120	18,352
Total disbursements	<u>20,368</u>	<u>96,059</u>	<u>2,618</u>	<u>6,000</u>	<u>18,325</u>	<u>3,120</u>	<u>18,352</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	CAIC Critical Illness	Allstate Critical Illness	Allen Superior Court	ACS Support	US Department of Treasury	Storm Water Operating	Storm Water Depreciation
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160,631	\$ 149,635
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	1,030,245	-
Other receipts	19,324	205	609	306	258	-	131,503
Total receipts	<u>19,324</u>	<u>205</u>	<u>609</u>	<u>306</u>	<u>258</u>	<u>1,030,245</u>	<u>131,503</u>
Disbursements:							
Personal services	-	205	609	306	258	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	19,324	-	-	-	-	1,114,643	160,000
Total disbursements	<u>19,324</u>	<u>205</u>	<u>609</u>	<u>306</u>	<u>258</u>	<u>1,114,643</u>	<u>160,000</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	(84,398)	(28,497)
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,233</u>	<u>\$ 121,138</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Storm Water Depreciation Equipment Reserve	Storm Water Bond Reserve	Storm Water Construction	Stormwater Bond and Interest	Wastewater Operation	Wastewater Depreciation	Wastewater Customer Deposit
Cash and investments - beginning	\$ 258,201	\$ 429,920	\$ 373,704	\$ 275,609	\$ 206,681	\$ 215,221	\$ 216,225
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	60,000	-	776,013	-	2,693,577	-	-
Other receipts	-	-	-	375,723	-	761,291	68,082
Total receipts	<u>60,000</u>	<u>-</u>	<u>776,013</u>	<u>375,723</u>	<u>2,693,577</u>	<u>761,291</u>	<u>68,082</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other disbursements	246,200	-	911,508	389,959	2,456,990	666,462	57,902
Total disbursements	<u>246,200</u>	<u>-</u>	<u>911,508</u>	<u>389,959</u>	<u>2,456,990</u>	<u>666,462</u>	<u>57,902</u>
Excess (deficiency) of receipts over disbursements	<u>(186,200)</u>	<u>-</u>	<u>(135,495)</u>	<u>(14,236)</u>	<u>236,587</u>	<u>94,829</u>	<u>10,180</u>
Cash and investments - ending	<u>\$ 72,001</u>	<u>\$ 429,920</u>	<u>\$ 238,209</u>	<u>\$ 261,373</u>	<u>\$ 443,268</u>	<u>\$ 310,050</u>	<u>\$ 226,405</u>

CITY OF MARION
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Wastewater Construction	Water Operating	Water Depreciation	Water Consumer Deposit	Water Quail Hollow	Water Construction	Totals
Cash and investments - beginning	\$ 500,154	\$ 628,852	\$ 743,824	\$ 237,436	\$ 21,700	\$ 576,368	\$ 7,677,105
Receipts:							
Taxes	-	-	-	-	-	-	16,889,168
Licenses and permits	-	-	-	-	-	-	120,900
Intergovernmental	-	-	-	-	-	-	12,465,241
Charges for services	-	-	-	-	-	-	2,353,994
Fines and forfeits	-	-	-	-	-	-	146,741
Utility fees	1,258,164	3,383,179	-	-	-	1,168,422	10,369,600
Other receipts	-	-	1,213,882	68,865	-	-	33,661,457
Total receipts	<u>1,258,164</u>	<u>3,383,179</u>	<u>1,213,882</u>	<u>68,865</u>	<u>-</u>	<u>1,168,422</u>	<u>76,007,101</u>
Disbursements:							
Personal services	-	-	-	-	-	-	15,615,185
Supplies	-	-	-	-	-	-	1,676,469
Other services and charges	-	-	-	-	-	-	20,716,996
Debt service - principal and interest	-	-	-	-	-	-	9,187,921
Capital outlay	-	-	-	-	-	-	1,697,956
Other disbursements	902,262	3,698,333	1,647,257	61,057	-	946,971	29,983,061
Total disbursements	<u>902,262</u>	<u>3,698,333</u>	<u>1,647,257</u>	<u>61,057</u>	<u>-</u>	<u>946,971</u>	<u>78,877,588</u>
Excess (deficiency) of receipts over disbursements	<u>355,902</u>	<u>(315,154)</u>	<u>(433,375)</u>	<u>7,808</u>	<u>-</u>	<u>221,451</u>	<u>(2,870,487)</u>
Cash and investments - ending	<u>\$ 856,056</u>	<u>\$ 313,698</u>	<u>\$ 310,449</u>	<u>\$ 245,244</u>	<u>\$ 21,700</u>	<u>\$ 797,819</u>	<u>\$ 4,806,618</u>

CITY OF MARION
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Storm Water	\$ 29,129	\$ 328,754
Wastewater	167,115	367,805
Water	123,977	389,612
Governmental activities	917,888	-
Totals	\$ 1,238,109	\$ 1,086,171

CITY OF MARION
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
Capital lease	Energy savings 2011	\$ 1,321,890	\$ 126,384
Notes and loans payable	2005 insurance note	735,000	205,231
Notes and loans payable	2008 aviation loan	209,195	43,650
Notes and loans payable	2008 animal shelter note	408,000	419,706
Notes and loans payable	2009 bond anticipation note	3,000,000	3,093,750
Notes and loans payable	2010 bond anticipation note	3,333,904	158,360
Notes and loans payable	2011 bond anticipation note	2,878,533	2,941,501
General obligation bonds	2011 redevelopment CREED refunding bond	5,095,000	740,134
General obligation bonds	2002 Pennsylvania Avenue	610,000	138,015
General obligation bonds	2005 COIT	5,530,000	470,262
General obligation bonds	2005 park district	4,105,000	411,475
Revenue bonds	City of Marion Taxable Economic Development Revenue Bonds Series 2010 (Earthbound RV Project)	1,900,000	309,967
Total governmental activities		<u>29,126,522</u>	<u>9,058,435</u>
Storm Water:			
Notes and loans payable	Storm Sewer separation	<u>2,147,642</u>	<u>363,639</u>
Totals		<u>\$ 31,274,164</u>	<u>\$ 9,422,074</u>

CITY OF MARION
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented in this report included the following funds with overdrawn cash balances at December 31, 2012:

Fund	Balance 12-31-12
Animal Control Non Reverting Insurance Reserve	\$ (138,281) (5,028,484)

General Ordinance No. 29-2004, An Ordinance Governing the Operation of the City Insurance Fund, states:

"Section IV. If the funds are totally depleted the Council will appropriate adequate funds to replenish the fund minimum balance."

"Section V. The fund minimum balance should be no less than the recommended amount used for self-funded programs which is normally four (4) months contributions."

A similar comment appeared in prior Report B40564.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANNUAL REPORT – OMISSION OF DEPARTMENTS

The Annual Report for 2012 did not include the financial transactions and cash balances of the City Clerk and Probation Department. The cash balances at December 31, 2012, are as follows:

Office	Cash Balance 12-31-12
City Clerk	\$ 89,675
Probation Department	2,904

A similar comment appeared in prior Report B40564. The financial statement presented in this report has not been adjusted to include the transactions and balances of these departments.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

ANNUAL REPORT – SUPPLEMENTAL SCHEDULES

The Schedule of Accounts Payable and Receivable, included in the Annual Report for 2012, understated the amount of accounts payable and did not properly reflect the financial activity of the City. The original reported amount of accounts payable was \$378,265. The amount of accounts payable at December 31, 2012, per our review, was \$917,888. Officials elected to make changes to the schedule originally submitted, resulting in the corrected schedule presented in this report.

The Schedule of Leases and Debt, included in the Annual Report for 2012, included numerous errors and did not properly reflect the financial activity of the City. The original reported amount of debt Ending Principal Balance was \$23,231,642. The amount of debt at December 31, 2012, per our review, was \$31,274,164. Officials elected to make changes to the schedule originally submitted, resulting in the corrected schedule presented in this report.

Per our review, the Schedule of Capital Assets, included in the Annual Report for 2012, was not fairly stated and did not properly reflect the financial activity of the City. Proper amounts could not be determined; therefore, no Schedule of Capital Assets is presented for December 31, 2012.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

BANK ACCOUNT RECONCILIATIONS

An audit of the depository reconciliations of the fund balances to the bank account balances at December 31, 2012, disclosed the following:

1. The cash and investment balances, as maintained by the City Controller, exceeded reconciled bank balances by \$4,078.
2. The outstanding check lists of the operating checking account ("Bank 0") and payroll checking account ("Bank 2") included checks outstanding in excess of two years.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

FUND SOURCES AND USES

On July 19, 2012, the City disbursed \$269,294 from the TIF Allocation Fund, a debt service fund, for the purchase of real estate at 141 South Adams Street. Also on July 19, 2012, a \$269,294 transfer was made from the 2011 Bond Fund to the General Fund. It appears the transfer should have been made to the TIF Allocation Fund as a reimbursement.

CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE

Earthbound RV, LLC

A \$200,000 promissory note from Earthbound RV, LLC was due the City as of December 31, 2012. This note was originally issued October 1, 2010, as an economic incentive. Earthbound RV, LLC subsequently has ceased operations, resulting in the promissory note becoming uncollectable.

As a result of Earthbound RV, LLC ceasing operations, the City is liable for \$1,900,000 of economic development revenue bonds at December 31, 2012.

Uncollected Trash Billings

The City transferred the billing and collecting for trash pickup services to the Marion Utilities effective December 31, 2012. At that time, \$264,591 of uncollected trash pickup billings remained outstanding. In 2013, \$67,936 was collected by the City on these accounts. The City has not pursued further collection of these outstanding balances.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE – NON-SUFFICIENT FUNDS CHECK

A \$129 check, dated July 27, 2012, was issued to the City by Mayor Wayne Seybold. The check was to reimburse the City for costs incurred by a family member while accompanying the Mayor on a trip to South Korea. Receipt 8072 for \$129 was issued September 11, 2012 for the reimbursement. The check was deposited September 11, 2012. On September 14, 2012, the bank returned the check for non-sufficient funds. On February 28, 2013, receipt 9104 was issued for \$373.49 which had been deposited February 21, 2013. The receipt indicated \$160 in cash had been received from Mayor Wayne Seybold for reimbursement of the NSF check and NSF bank fees.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-1-8-13 states: "A unit that is unable to obtain payment of a dishonored check shall, not later than ninety (90) days after the check is initially received by the unit, refer the matter to the prosecuting attorney for the county where the dishonored check was received for prosecution."

APPROPRIATION - RAINY DAY FUND

During 2012, the City disbursed \$333,542 from the Rainy Day Fund. On November 20, 2012, Resolution 15-12 was approved by the Council authorizing the use of \$340,000 from the Rainy Day fund. Records presented for audit did not indicate the City obtained the proper approval for this appropriation from the Department of Local Government Finance.

CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

The Rainy Day Fund is subject to the same appropriation process as other funds that receive tax money. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CONDITION OF RECORDS – UNAUTHORIZED TRANSFERS

Parks and Recreation Fund

Transfers of "Electric" expenditures (\$18,478) and "Water & Sewage" expenditures (\$6,926) were made from the Parks and Recreation Fund to the County Economic Development Income Tax (CEDIT) Fund on December 28, 2012. The transfers were made by using "negative" disbursements to record the transactions, instead of issuing checks and receipts. Prior to these entries being made, the appropriations in the above mentioned categories were over-expended.

The transfer of expenditures in this manner has essentially resulted in the transfer of cash from the CEDIT Fund to the Parks and Recreation Fund, an appropriated fund. Indiana Code 6-3.5-7-12.7 states in part: "A . . . city . . . may at any time, by ordinance or resolution, transfer to: (1) its general fund; or (2) any other appropriated funds of the . . . city; money that has been deposited in the economic development income tax fund established by the . . . city . . ."

The common council did not pass an ordinance or resolution for the transfer of money from the CEDIT Fund to the Parks and Recreation Fund, nor did they act in any way to authorize such a transfer.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Group Gasoline Fund

Gasoline purchases of \$97,387 originally charged to the Group Gasoline Fund were transferred to the CEDIT Fund on December 31, 2012. The transfers were made by using "negative" disbursements to record the transactions, instead of issuing checks and receipts. Prior to these entries being made, the cash balance of the Group Gasoline Fund was overdrawn, in the exact amount of the purchases transferred. The result of the transfer was to return the balance of the Group Gasoline Fund to zero, as of December 31, 2012.

The transfer of expenditures in this manner has essentially resulted in the transfer of cash from the CEDIT Fund to the Group Gasoline Fund. Indiana Code 6-3.5-7-12.7 states in part: "A . . . city . . . may at any time, by ordinance or resolution, transfer to: (1) its general fund; or (2) any other appropriated funds of the . . . city; money that has been deposited in the economic development income tax fund established by the . . . city . . ."

The common council did not pass an ordinance or resolution for the transfer of money from the CEDIT Fund to the Group Gasoline Fund, nor did they act in any way to authorize such a transfer; however, since the Group Gasoline Fund is not an appropriated fund, it would not in any circumstances be eligible to receive a transfer from the CEDIT Fund, under Indiana Code 6-3.5-7-12.7.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

City Bond and Interest Fund

Interest expense of \$6,450 on the 2005 Insurance Funding Note, originally posted to the City Bond and Interest Fund, was transferred to the CEDIT Fund on December 28, 2012. The transfer was made by using a "negative" disbursement to record the transaction, instead of issuing a check and receipt. Prior to these entries being made, the cash balance of the City Bond and Interest Fund was overdrawn, in the exact amount of the expense transferred. The result of the transfer was to return the balance of the City Bond and Interest Fund to zero, as of December 31, 2012.

The transfer of expenditures in this manner has essentially resulted in the transfer of cash from the CEDIT Fund to the City Bond and Interest Fund, an appropriated fund. Indiana Code 6-3.5-7-12.7 states in part: "A . . . city . . . may at any time, by ordinance or resolution, transfer to: (1) its general fund; or (2) any other appropriated funds of the . . . city; money that has been deposited in the economic development income tax fund established by the . . . city . . ."

The common council did not pass an ordinance or resolution for the transfer of money from the CEDIT Fund to the City Bond and Interest Fund, nor did they act in any way to authorize such a transfer.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Park Bond Fund

Interest expense of \$38,363 on the 2005 Park District Bonds, originally posted to the Park Bond Fund, was transferred to the CEDIT Fund on December 28, 2012. The transfer was made by using a "negative" disbursement to record the transaction, instead of issuing a check and receipt. Prior to these entries being made, the cash balance of the Park Bond Fund was overdrawn, in the exact amount of the expense transferred. The result of the transfer was to return the balance of the Park Bond Fund to zero, as of December 31, 2012.

The transfer of expenditures in this manner has essentially resulted in the transfer of cash from the CEDIT Fund to the Park Bond Fund, an appropriated fund. Indiana Code 6-3.5-7-12.7 states in part: "A . . . city . . . may at any time, by ordinance or resolution, transfer to: (1) its general fund; or (2) any other appropriated funds of the . . . city; money that has been deposited in the economic development income tax fund established by the . . . city . . ."

The common council did not pass an ordinance or resolution for the transfer of money from the CEDIT Fund to the Park Bond Fund, nor did they act in any way to authorize such a transfer.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

Insurance Reserve Fund

Transfers of \$372,263 and \$653,063 were made from the Insurance Reserve Fund to the General Fund on December 31, 2012. These transfers were made to "void" previous transfers of third and fourth quarter employer health insurance contributions from the General Fund. This combined \$1,025,327 of transfers back to the General Fund resulted in the General Fund having a \$312,515 December 31, 2012 cash balance, thus avoiding an overdrawn cash balance.

We know of no authority that would allow such transfers to be made. The cash balance of the Insurance Reserve Fund was overdrawn, as of December 31, 2012, by \$5,028,484.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

1937 Fire Pension Fund

A transfer of \$62,642 was made from the 1937 Fire Pension Fund to the 1925 Police Pension Fund on December 31, 2012. The explanation given was that this transfer was made to correct a state pension relief distribution that was noted as "postetd wrong" (*sic*). However, state pension relief distributions of \$1,446,643 to the 1937 Fire Pension Fund and \$957,775 to the 1925 Police Pension Fund were originally posted to their respective funds as directed by the Indiana Public Retirement System. This transfer resulted in the 1925 Police Pension Fund having a December 31, 2012 balance of zero, thus avoiding an overdrawn cash balance. The Common Council did not pass an ordinance or resolution approving the transfer.

We know of no authority that would allow such a transfer to be made.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

LOAN FROM MARION UTILITIES IN ANTICIPATION OF TAXES TO BE COLLECTED

A loan of \$1,000,000 was received by the City on September 11, 2012 from the Marion Utilities in anticipation of taxes to be levied and collected. The loan was made to allow the City to meet its cash flow obligations. The loan was not repaid on or before thirty days after the last day for the payment of the anticipated taxes, which were received December 6, 2012. The loan remains outstanding as of June 30, 2013.

Indiana Code 8-1.5-3-12 states in part:

"(a) A municipality may, by ordinance of its legislative body, borrow money from a utility owned by the municipality for any of the following purposes: . . .

CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

(d) A loan under this section: . . .

(3) is due:

(A) on or before thirty (30) days after the last day for the payment of anticipated taxes, in the case of a loan made under subsection (a)(1); and

(B) on a date determined by the board (but not more than six (6) years after the date of the loan), in the case of a loan made under subsection (a)(2); . . ."

PENALTIES, INTEREST, AND OTHER CHARGES

The City paid penalties and interest in the amount of \$487 due to credit card bills for the Mayor and Police Department not remitted on a timely basis. In addition, the City paid penalties, interest, and fees to vendors due to the City not remitting payments on a timely basis. The total of these penalties, interest, and fees could not be readily determined.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS

We found several instances where internal controls were deemed to be inadequate which could impair the City's ability to prevent and detect errors related to its recordkeeping. These instances included the following:

1. Internal controls over the cash and investments and receipting functions were insufficient. One person has primary responsibility for issuing and posting receipts and reconciling.
2. Management of the City has not established an effective internal control system over accounting for capital assets which would include controls over the recording of additions, disposals, and balances.
3. The City did not have a proper system of internal control in place related to financial reporting as it pertains to the preparation of the Schedule of Expenditures of Federal Awards (SEFA). During the audit of the SEFA, we noted the following errors: (a) inclusion of funds from state and local sources, (b) federal expenditure amounts of individual awards being reported incorrectly, (c) expenditures for some grant awards were omitted from the SEFA, (d) information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were either

CITY OF MARION
AUDIT RESULTS AND COMMENTS
(Continued)

incorrectly reported or omitted for some grant awards. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE CITY OF MARION, GRANT COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the City of Marion's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A - 133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-3 and 2012-4. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-3 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-4 and 2012-5 to be significant deficiencies.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 13, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the City. The schedule and note are presented as intended by the City.

CITY OF MARION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>				
CDBG - State-Administered CDBG Cluster Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs	14.228	CF-11-110	\$ 109,960
Total - Department of Housing and Urban Development				<u>109,960</u>
<u>Department of Justice</u>				
Crime Victim Assistance	Indiana Criminal Justice Institute	16.575	2010-VA-GX-0100 2011-VA-GX-0039	7,624 <u>26,639</u>
Total - Crime Victim Assistance				<u>34,263</u>
Bulletproof Vest Partnership Program	Direct Grant	16.607	1121-0235	<u>2,690</u>
ARRA - Public Safety Partnership and Community Policing Grants	Direct Grant	16.710	2009RKWX0340	<u>169,924</u>
JAG Program Cluster Edward Byrne Memorial Justice Assistance Grant Program	Indiana Criminal Justice Institute	16.738	09-DJ-099	<u>18,678</u>
Total - Department of Justice				<u>225,555</u>
<u>Department of Transportation</u>				
Airport Improvement Program	Direct Grant	20.106	3-18-0053-18 3-18-0053-19 3-18-0053-20 3-18-0053-21 3-18-0053-22	157,807 570,946 403,599 322,138 <u>14,400</u>
Total - Airport Improvement Program				<u>1,468,890</u>
Highway Planning and Construction Cluster ARRA - Highway Planning and Construction	Indiana Department of Transportation	20.205	1173225	<u>87,508</u>
Federal Transit Cluster ARRA - Federal Transit - Capital Investment Grants	Indiana Department of Transportation	20.500	A249-10-321074	<u>462,882</u>
Federal Transit - Formula Grants Operating Assistance	Indiana Department of Transportation	20.507	18028A06O 18029006O 18Y28A06O 18Y29006O 18Y28A06C 18Y29006C	107,444 400,640 1,010 3,256 2,400 <u>7,200</u>
Total - Federal Transit - Formula Grants				<u>521,950</u>
Total - Federal Transit Cluster				<u>984,832</u>
Highway Safety Cluster State and Community Highway Safety	Grant County	20.600	PT-12-11-04-16	<u>9,750</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I	Grant County	20.601	CA-2013-08-01-06 K8-2012-03-03-09	1,972 <u>3,750</u>
Total - Alcohol Impaired Driving Countermeasures Incentive Grants I				<u>5,722</u>
Total - Highway Safety Cluster				<u>15,472</u>
Total - Department of Transportation				<u>2,556,702</u>
<u>Department of Homeland Security</u>				
Staffing for Adequate Fire and Emergency Response (SAFER)	Direct Grant	97.083	EMW-2009-FH-00578	<u>95,051</u>
Total - Department of Homeland Security				<u>95,051</u>
Total federal awards expended				<u>\$ 2,987,268</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF MARION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Marion and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF MARION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
20.106	Federal Transit Cluster Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted deficiencies in the internal control system of the City related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to the achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts and cash and investment balances. The failure to establish adequate controls over receipts could enable material misstatements or irregularities to remain undetected.

CITY OF MARION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2012-2 - INTERNAL CONTROLS OVER REPORTING OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors: (a) inclusion of funds from state and local sources, (b) federal expenditure amounts of individual awards being reported incorrectly, (c) expenditures for some grant awards were omitted from the SEFA, (d) information such as grantor agency, program title, pass-through entity, Catalog of Federal Domestic Assistance (CFDA) number, and pass-through identifying number were either incorrectly reported or omitted for some grant awards. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310 (b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

CITY OF MARION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-3 - CASH MANAGEMENT - INTERNAL CONTROLS/COMPLIANCE REQUIREMENTS

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers: 3-18-0053-18, 3-18-0053-19, 3-18-0053-20, 3-18-0053-21, 3-18-0053-22

Pass-Through Entity: Direct Grant

Management of the City chose to override its established internal control system related to cash management compliance requirements. As a result, the City did not effectively minimize the time lapsing between the transfer of funds from the grantor and the disbursement to its various contractors. In the eight instances tested, the time lapse from the draw of federal funds to the issuance of checks to the contractor ranged from six to thirty-four days. Also, management would often hold contractor checks before releasing them. The time lapse from the draw of federal funds to the dates the contractors' checks cleared the financial institution ranged from 20 to 61 days.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

CITY OF MARION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

49 CFR 18.21(c) states:

"Grantees and sub-grantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or sub-grantee."

The failure to properly maintain internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and cash management compliance requirement to ensure all requirements are complied with.

***FINDING 2012-4 - EQUIPMENT AND REAL PROPERTY MANAGEMENT -
INTERNAL CONTROLS/COMPLIANCE REQUIREMENTS***

Federal Agency: Department of Transportation
Federal Program: ARRA - Federal Transit – Capital Investment Grants
CFDA Number: 20.500
Federal Award Number and Year (or Other Identifying Number): A249-10-321074
Pass-Through Entity: Indiana Department of Transportation

Federal Agency: Department of Transportation
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Number and Year (or Other Identifying Number): 3-18-0053-21
Pass-Through Entity: Direct Grant

Management of the City has not established an effective internal control system, which would include segregation of duties, related to its grant agreements and the equipment and real property management compliance requirement.

The failure to establish an effective internal control system puts the City at risk of noncompliance with the grant agreement and the equipment and real property management compliance requirements. A lack of a properly established internal control system, including segregation of duties could allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

The failure to establish an effective internal control system resulted in the City being in noncompliance with equipment and real property management compliance requirements related to the Airport Improvement Program. Information and cost amounts related to the acquisition of some airport infrastructure related improvements was not properly captured and accounted for as an addition to the City's capital asset records. Additionally, the City did not conduct an inventory of property as required.

CITY OF MARION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

No noncompliance with equipment and real property management requirements was noted for the ARRA - Federal Transit - Capital Investment Grants.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

49 CFR 18.32(d) states in part:

- "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and equipment and real property management compliance requirement to ensure all requirements are met.

***FINDING 2012-5 - SPECIAL TESTS AND PROVISIONS -
ARRA REPORTING - INTERNAL CONTROLS***

Federal Agency: Department of Transportation
Federal Program: ARRA - Federal Transit – Capital Investment Grants
CFDA Number: 20.500
Federal Award Number and Year (or Other Identifying Number): A249-10-321074
Pass-Through Entity: Direct Grant

CITY OF MARION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the ARRA – Federal Transit – Capital Investment Grants and the special tests and provisions compliance requirement regarding the proper identification of ARRA awards on the Schedule of Expenditure of Federal Awards (SEFA) and that reported expenditures are supported by accounting records. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

2 CFR 176.210(b) states in part:

"For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, 'Audits of States, Local Governments, and Non-Profit Organizations,' recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. . . . This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix 'ARRA-' in identifying the name of the federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and the special tests and provisions compliance requirement.

City of Marion
301 Branson
Marion, IN 46952

FEDERAL FINDING 2012-1 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

FEDERAL FINDING 2012-2 – INTERNAL CONTROLS OVER REPORTING OF EXPENDITURES OF FEDERAL AWARDS

FEDERAL FINDING 2012-3 – CASH MANAGEMENT – INTERNAL CONTROLS/COMPLIANCE REQUIREMENTS

Federal Agency:: DEPARTMENT OF TRANSPORTATION
Federal Program: Airport Improvement Program
CFDA Number: 20.106
Federal Award Number and Year (Or Other Identifying Number): 3-18-0053-18, 3-18-0053-19, 3-18-1153-20, 3-18-0053-21, 3-18-0053-22
Pass-Through Entity: Direct Grant

FEDERAL FINDING 2012- 4 – EQUIPMENT AND REAL PROPERTY MANAGEMENT - INTERNAL CONTROLS/COMPLIANCE REQUIREMENTS

Federal Agency: DEPARTMENT OF TRANSPORTATION
Federal Program: ARRA- Federal Transit Investment Grants
CFDA Number: 20.500
Federal Award Number and Year (or Other Identifying Number): A249-10-321074
Pass-Through Entity: Indiana Department of Transportation

Federal Agency: DEPARTMENT OF TRANSPORTATION
Federal Program: Airport Improvement Program
CFDA Number: 20.601
Federal Award Number and Year (or Other Identifying Number): 3-18-0053-2
Pass-Through Entity: Direct Grant

FEDERAL FINDING 2012-5 – SPECIAL TESTS AND PROVISIONS – ARRA REPORTING – INTERNAL CONTROLS/COMPLIANCE REQUIREMENTS

Federal Agency: DEPARTMENT OF TRANSPORTATION
Federal Program: ARRA- Federal Transit Investment Grants
CFDA Number: 20.500
Federal Award Number and Year (or Other Identifying Number): A249-10-321074
Pass-Through Entity: Indiana Department of Transportation

Auditee Contact Person: Wayne Seybold
Title of Contact Person: Mayor
Phone Number: 765-662-9931
Expected Completion Date: November 1, 2013

Corrective Action:

In an ideal budget situation, the City would have sufficient funds to provide for multiple employees within the Controller's office to allow for the adequate segregation of duties as it pertains to our system of internal controls associated with financial transactions. Upon my appointment to this office (_____, 2013) I have reviewed the staffing levels and segregation of duties within the office. At my request, the administration is including in its proposed 2014 budget a request for an additional employee within the Controller's office.

While the addition of a single employee might not fully address the auditors' concerns regarding the adequate segregation of duties, it will allow me to better implement a system of checks and balances to ensure that the matters brought to my attention are addressed in future matters.

However, given the past and current economic climate and the financial strains placed upon municipalities across Indiana from property tax caps, decreased state funding sources and increasing cost in overall operations of the City; the final determination on this request will rest on the final decision of the 2014 budget.

CITY OF MARION
EXIT CONFERENCE

The contents of this report were discussed on August 13, 2013, with Tameria N. Miller, Controller; Wayne W. Seybold, Mayor; and Donald W. Batchelor, President of the Common Council. The Official Response has been made a part of this report and may be found on pages 65 and 66.



August 26, 2013

Bruce A. Hartman, CPA
State Examiner
Indiana State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765

Re: Official Response – 2012 Audit of the City of Marion

Dear Mr. Hartman:

Please accept this letter as the Official Response to the audit of the financial records of the City of Marion for the period January, 1, 2012 through December 31, 2012.

Many of the comments brought to our attention by your examiners relate, either directly or indirectly to the overall systems of internal controls within the City Controller's Office. Earlier this year, a new City Controller was appointed to fill the vacancy left upon the resignation of the former Controller (due to her family's relocation caused by her husband's transfer). This individual has vast experience within local government at the county level.

She has undertaken, with the assistance of our internal and external team, a review of the staffing requirements and duties assigned in order to address many of the items presented in your report. A direct result of those efforts is that I have included in my 2014 budget request the addition of an additional employee within the City Controller's Office. The addition of this individual will go a long way in assisting the City Controller in establishing an internal operating system that will contain sufficient internal controls to eliminate many of the procedural items noted in your examination.

In the matter of the disbursement from our TIF Allocation Fund for the purchase of certain real estate (see: Fund Sources and Uses), your examiner is mistaken that the TIF Allocation Fund is a "debt service fund" and we maintain that the disbursement for the transaction in question is an allowable use of the fund. The transfer from the 2011 Bond Fund to the General Fund was for the reimbursement of an expense originally made from the General Fund. We would respectfully request your consideration of these matters.

As for the comment pertaining to the "Collection of Amounts Due" pertaining to the Earthbound RV, LLC transaction, it is regrettable that the economic climate did not allow all parties involved to bring this project to a successful conclusion. At the time, it was determined by the Community Revitalization Enhancement District (CRED) Board and the City Council that it was an effort worth pursuing in our continuing effort to bring outside investment, tax revenues and job into the City of Marion. The City and its economic development team exercises a great deal of due diligence in each of the efforts that

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have been undertaken.

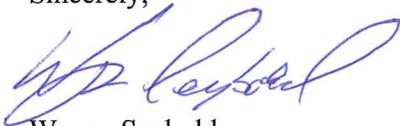
As for the trash billings, the City has pursued these outstanding amounts (as noted in your comment) and has given the responsibility for the remaining amounts outstanding and all future billings and collection to the city utilities office. They have the existing infrastructure in place for the billing and collection of similar services. No amounts have been written off. Therefore, I believe that your examiner is mistaken when they conclude that *“The City has not pursued further collection of these outstanding balances.”*

In the matter of the outstanding loan from Marion Utilities (“Loan from Marion Utilities in Anticipation of Taxes to be Collected”). The City is taking the necessary steps to address the repayment of this obligation and hopes to have it resolved by the end of 2013. It is unfortunate that the systemic changes that have occurred in the ways that the operation of municipalities are funded have become so restrictive in an era in which the demands on municipalities to provide essential services continues to increase and at costs rising faster than the increases in our available revenues.

However, we take exception to the comments pertaining to the “unauthorized transfers” within the Park and Recreation, Group Gasoline, City Bond and Interest, Park Bond and Insurance Reserve Funds (see “Condition of Records – Unauthorized Transfers”). We believe that the examiners did not fully review or understand the activity that occurred within the records. I would respectfully request that you or your office supervisors review the circumstances surrounding this comment and determine its appropriateness given the circumstances and the information provided to your field staff during the examination.

In closing, I would like to note that your examiner was helpful and respectful throughout the examination and provided valuable assistance to the Controller and her staff during her transition into the office.

Sincerely,



Wayne Seybold
Mayor