

City of Marysville

Union County, Ohio

Regular Audit

For the Year Ended December 31, 2003

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com



**Auditor of State
Betty Montgomery**

City of Marysville
Marysville, Ohio

We have reviewed the Independent Auditor's Report of the City of Marysville, Union County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Marysville is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 11, 2005

This Page is Intentionally Left Blank.

City of Marysville, Ohio
Basic Financial Statements
For the Year Ended December 31, 2003

Table of Contents

Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities.....	10
Balance Sheet - Governmental Funds.....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds.....	13
Reconciliation of Statement of Revenues, Expenditures, And Changes in Fund Balance of Governmental Funds to Statement of Activities.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund.....	15
Statement of Net Assets - Enterprise Funds.....	16
Statement of Revenues, Expenses, and Changes in Net Assets - Enterprise Funds.....	17
Statement of Cash Flows - Enterprise Funds.....	18
Statement of Fiduciary Assets and Liabilities - Agency Fund.....	20
Notes to the Basic Financial Statements.....	21
Report on Compliance and On Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	52
Schedule of Prior Audit Findings.....	54

This Page is Intentionally Left Blank.

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

City of Marysville
Union County, Ohio
125 East Sixth Street
Marysville, Ohio 43040

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marysville, Union County, Ohio, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marysville, Union County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.
December 16, 2004

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2003

The discussion and analysis of the City of Marysville's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets increased \$4,190,844. Net assets of governmental activities increased \$310,841, which represents a 1.10 percent increase from 2002. Net assets of business-type activities increased \$3,880,003 or 19.20 percent from 2002.
- Total assets of governmental activities decreased \$355,850, which represents a 0.85 percent decrease from 2002.
- Total liabilities of governmental activities decreased by \$666,691 (4.89%), which is attributable to decreases in long-term debt.
- Total assets of business-type activities increased \$2,631,712, which represents a 5.73 percent increase from 2002.
- Total liabilities of business-type activities decreased \$1,248,291 (4.85%). Again, this is attributable to decreases in long-term debt.
- In total, cash and cash equivalents increased \$3,598,451 or 37.38 percent. Total cash and cash equivalents of governmental activities increased \$824,309 or 25.98 percent, while cash and cash equivalents in business-type activities increased \$2,729,171 or 42.29 percent.
- Overall, the book value of capital assets decreased by \$1,601,428. Total capital assets from governmental activities decreased by \$1,302,329 or 3.75 percent. Capital assets from business-type activities decreased by \$299,099 or 0.78 percent. These decreases were primarily a function of depreciation costs.
- On an accrual basis, City income tax revenue increased \$528,752 or 9.25 percent.

Using the Annual Financial Report

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

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

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Reporting the City of Marysville as a Whole

Statement of Net Assets and Statement of Activities

While this report contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

- **Governmental Activities** - Most of the City's services are reported as governmental activities including police, fire, administration, and all departments with the exception of business-type activities (sanitation, wastewater treatment, and water services).
- **Business-Type Activities** - These services have a charge based upon usage. The City charges fees to recoup the cost of the entire operation of the Water Plant and Wastewater Treatment Plant as well as all capital expenses associated with these facilities. The City also charges fees to recoup the cost of disposal of solid waste and leaf and brush removal.

Reporting the City of Marysville's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents; however, fund financial statements focus on the City's most significant funds. The City of Marysville's major funds are the General Fund, the Debt Service Fund, and the Sanitation, Sewer, and Water enterprise funds.

Governmental Funds - Most of the City's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the year-end balances available for spending in the future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services provided. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future on services provided to residents. The relationships between governmental activities reported in the statement of net assets and the statement of activities and the governmental fund statements are reconciled in the financial statements.

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

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2003

The City of Marysville as a Whole

The statement of net assets reviews the City as a whole. The following table is a summary of the City's net assets for 2003 and 2002.

	Net Assets (In Thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	\$8,141.4	\$7,194.9	\$10,496.4	\$7,565.6	\$18,637.8	\$14,760.5
Capital Assets, Net	33,381.2	34,683.5	38,054.3	38,353.4	71,435.5	73,036.9
Total Assets	41,522.6	41,878.4	48,550.7	45,919.0	90,073.3	87,797.4
Liabilities						
Current and Other Liabilities	(2,306.3)	(2,506.2)	(7,290.6)	(7,095.6)	(9,596.9)	(9,601.8)
Long-Term Liabilities						
Due within One Year	(1,690.4)	(1,726.1)	(947.3)	(1,125.3)	(2,637.7)	(2,851.4)
Due in More Than One Year	(8,969.0)	(9,400.0)	(16,226.3)	(17,491.6)	(25,195.3)	(26,891.6)
Total Liabilities	(12,965.7)	(13,632.3)	(24,464.2)	(25,712.5)	(37,429.9)	(39,344.8)
Net Assets						
Invested in Capital Assets Net of Related Debt	(23,285.6)	(24,098.0)	(14,250.6)	(13,433.5)	(37,536.2)	(37,531.5)
Restricted for:						
Capital Projects	(250.2)	(253.9)	0.0	0.0	(250.2)	(253.9)
Debt Service	(284.4)	(321.0)	0.0	0.0	(284.4)	(321.0)
Other Purposes	(1,679.0)	(1,479.4)	0.0	0.0	(1,679.0)	(1,479.4)
Sewer Reserve	0.0	0.0	(37.1)	0.0	(37.1)	0.0
Sewer Bond Covenants	0.0	0.0	(2,206.7)	(1,532.8)	(2,206.7)	(1,532.8)
Water Bond Covenants	0.0	0.0	(2,038.4)	(1,262.2)	(2,038.4)	(1,262.2)
Future Debt	0.0	0.0	(817.8)	(1,263.3)	(817.8)	(1,263.3)
Unrestricted	(3,057.7)	(2,093.8)	(4,735.9)	(2,714.7)	(7,793.6)	(4,808.5)
Total Net Assets	(\$28,556.9)	(\$28,246.1)	(\$24,086.5)	(\$20,206.5)	(\$52,643.4)	(\$48,452.6)

Total governmental activity assets decreased \$355,850. Equity in pooled cash and cash equivalents for governmental activities increased \$824,309. This increase is due primarily to increases in income tax revenues, inspection fee revenues, and strict expenditure control to reverse the decreases in cash noted in prior periods.

Total assets of the City's business-type activities increased significantly (\$2,631,712) with increased growth and development and capacity fee increases enacted during 2003. The large increase was primarily in Cash and Cash Equivalents (\$2,729,171) while the City saw a decrease in capital assets (\$299,099) due to wrapping up ongoing construction projects and increased depreciation expense.

Table 2 shows the changes in net assets for the year ended December 31, 2003.

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Changes in Net Assets
(In Thousands)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2003	2002	2003	2002	2003	2002
Revenues						
Program Revenues						
Charges for Services	\$1,681.5	\$1,472.7	\$11,407.7	\$9,434.9	\$13,089.2	\$10,907.6
Operating Grants, Contributions, and Interest	867.6	684.0	0.0	0.0	867.6	684.0
Capital Grants and Contributions	0.0	0.0	99.4	30.0	99.4	30.0
General Revenues						
Property Taxes	1,373.3	1,369.6	0.0	0.0	1,373.3	1,369.6
Municipal Income Taxes	6,245.3	5,716.5	0.0	0.0	6,245.3	5,716.5
Grants and Entitlements	1,061.2	664.5	0.0	0.0	1,061.2	664.5
Other	817.9	430.8	195.0	59.0	1,012.9	489.8
Total Revenues	12,046.8	10,338.1	11,702.1	9,523.9	23,748.9	19,862.0
Program Expenses						
General Government	1,850.3	2,846.1	0.0	0.0	1,850.3	2,846.1
Security of Persons and Property						
Police	2,716.8	2,270.2	0.0	0.0	2,716.8	2,270.2
Fire	2,711.3	2,225.6	0.0	0.0	2,711.3	2,225.6
Other	558.3	620.2	0.0	0.0	558.3	620.2
Public Health Services	317.3	320.5	0.0	0.0	317.3	320.5
Leisure Time Activities	316.9	463.4	0.0	0.0	316.9	463.4
Transportation	2,282.6	2,255.1	0.0	0.0	2,282.6	2,255.1
Community Environment	470.9	348.6	0.0	0.0	470.9	348.6
Interest and Fiscal Charges	511.6	541.2	0.0	0.0	511.6	541.2
Sanitation	0.0	0.0	865.2	873.9	865.2	873.9
Sewer	0.0	0.0	3,328.3	2,860.6	3,328.3	2,860.6
Water	0.0	0.0	3,628.6	3,373.3	3,628.6	3,373.3
Total Expenses	11,736.0	11,890.9	7,822.1	7,107.8	19,558.1	18,998.7
Increase (Decrease) in Net Assets	\$310.8	(\$1,552.8)	\$3,880.0	\$2,416.1	\$4,190.8	\$863.3

Governmental Activities

Several revenue sources fund governmental activities, with income taxes generally being the biggest contributor. The income tax rate of 1 percent was enacted in 1968. The income tax revenue for 2003 (accrual basis) was approximately \$6.2 million. General revenues from grants and entitlements, such as local government funds, are also a large revenue generator. With the combination of property tax, income tax and intergovernmental receipts comprising approximately 72 percent of all revenue in the governmental activities, the City monitors each of these revenue sources very closely for fluctuations.

Until 2003, the City was able to increase income tax collections approximately 17 percent per year (cash receipts). This is the third year accrual numbers are available for comparison and reflect an increase of 9.25 percent. The City contracts for income tax collections with the Regional Income Tax Agency (RITA) for administration and collection of the municipal income tax.

Security of persons and property is a major activity of the City in governmental activities funds, generating 51 percent of total governmental activities expenses. The City monitors the police and fire division budgets very closely as these two divisions use a significant amount of general revenues.

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Governmental Activities (Continued)

Although the City has worked diligently to increase its income tax base, it still continues to strive to provide better service at a lower cost. The ability of the City to continue to provide quality services without income tax increases rests on City management's ability to keep these costs in line.

Business-Type Activities

The City's business-type activities are its sanitation, sewer, and water departments. The water and wastewater treatment plants provide services to a resident base in excess of 16,000. The City also provides wastewater treatment for the Village of Milford Center and several small unincorporated areas where Union County has provided the residents with water and wastewater treatment lines. The water plant generated operating revenues of \$5,010,712 and had operating expenses of \$2,460,727. The wastewater treatment plant generated operating revenues of \$5,673,520 and had operating expenses of \$3,053,559. The City's goal is to cover the costs of operations as well as building a cash balance in these funds equivalent to one-third of the department's annual operating budget as recommended by the City's bond underwriters. The City is also generating funds for additional capital expansions to ensure continued capacity and capacity improvements for future growth and development.

Water, sewer and sanitation services comprise all of the City's business-type activities expenses. These expenses, as a percentage of total expenses (both governmental and business-type activities), is 40%.

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds on the modified accrual basis of accounting had total revenues of \$11,890,516 and expenditures of \$11,652,812.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2003, the City amended its General Fund budget numerous times. All recommendations for a budget change come from the City Finance Director to City Council for review and approval. With the General Fund supporting many of the major activities such as the City's police and fire departments, as well as most general government activities, the General Fund is monitored closely to prevent possible revenue shortfalls or over spending by individual departments.

For the General Fund, original budgeted revenues were \$10,409,460 and were not modified during the year. Original budgeted expenditures were \$8,741,478 and final budgeted expenditures were \$8,933,825.

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Capital Assets and Debt Administration

Capital Assets

Capital Assets at December 31, 2003
(Net of Depreciation, in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$1,084.7	\$1,084.7	\$1,668.5	\$1,668.5	\$2,753.2	\$2,753.2
Buildings	1,955.0	2,033.1	6,232.8	6,469.7	8,187.8	8,502.8
Improvements Other than Buildings	1,124.9	1,004.0	449.7	461.2	1,574.6	1,465.2
Computers and Computer Equipment	44.0	23.4	92.6	2.7	136.6	26.1
Furniture and Equipment	510.0	571.8	217.7	242.8	727.7	814.6
Vehicles	639.2	791.5	309.4	306.0	948.6	1,097.5
Infrastructure						
Bridges	238.2	242.2	0.0	0.0	238.2	242.2
Roads	23,913.5	25,121.1	0.0	0.0	23,913.5	25,121.1
Storm Sewer	2,427.8	2,501.1	0.0	0.0	2,427.8	2,501.1
Other	1,410.5	1,294.1	28,310.5	29,147.3	29,721.0	30,441.4
Construction in Progress	33.4	16.5	773.1	55.2	806.5	71.7
Totals	\$33,381.2	\$34,683.5	\$38,054.3	\$38,353.4	\$71,435.5	\$73,036.9

The decrease noted in governmental funds was due primarily to depreciation costs for vehicles and road infrastructure. The City has been unable to fund significant road improvement projects for several years and has concentrated on patching roads to try and extend the life of the asset until a funding solution specific to road improvements can be found. The slight decrease seen in the business-type activities is the first in the last two years and was due primarily to completion of several major capital projects in 2002 and additional depreciation costs for infrastructure assets.

Debt

At December 31, 2003, the City of Marysville had in excess of \$34.6 million in bonds, notes, claims, judgments, and compensated absences outstanding, \$9.44 million due within one year.

Outstanding Debt at December 31, 2003
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Notes	\$835.0	\$950.0	\$6,804.0	\$6,494.0	\$7,639.0	\$7,444.0
General Obligation Bonds	9,165.0	9,530.0	3,685.0	3,970.0	12,850.0	13,500.0
Special Assessment Bonds	10.0	15.0	0.0	0.0	10.0	15.0
Mortgage Revenue Bonds	0.0	0.0	13,314.2	14,454.3	13,314.2	14,454.3
Compensated Absences and Capital Leases	649.4	631.2	174.4	192.6	823.8	823.8
Total	\$10,659.4	\$11,126.2	\$23,977.6	\$25,110.9	\$34,637.0	\$36,237.1

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Capital Assets and Debt Administration (continued)

Debt (continued)

The general obligation bonds supported by governmental activities were for renovation of the City Hall when purchased in 1986 and for multiple City improvements financed with bond anticipation notes during the late 1990s. Many of these projects were for the extension of infrastructure and services to the large annexation of land in 1998. These monies were also used to refurbish several City streets (Grove Street, Raymond Road) and for the construction of the Public Service Center. These bonds will be repaid by the general operating revenues (income and property taxes) of the City.

The general obligation bonds supported by business-type activities were for plant expansion and renovation of the water and sewer utilities. The mortgage revenue bonds were issued primarily for (1) refinancing the purchase of the water treatment plant, vehicles, and related infrastructure from the Ohio Water Company in 1991, (2) refinancing the expansion of the wastewater treatment plant in 1992, and (3) infrastructure expansion required by the large annexation of land in 1998. These bonds are paid by water and sewer revenues collected from the City's utility customers for provision of water for consumption and wastewater treatment.

The remaining notes payable from business-type activities are scheduled to be refinanced with long-term bonds in 2004.

The City's overall legal debt margin was \$26,143,566 at December 31, 2003.

The Future

The City of Marysville is working diligently to increase revenues and decrease costs to put the City on more stable footing. Between 1990 and 2000, the City of Marysville grew from a community of 9,500 to a community approaching 16,000 residents. As is common in all cities experiencing massive growth patterns, we are feeling some growing pains and have significant capital improvement needs for future periods.

The City has made a commitment not to borrow additional monies for assets with a short useful life. As such, certain departments have mounting vehicle and equipment needs that will need to be addressed in the near future. As funding becomes available the City hopes to replace the Municipal Building as well as add a second fire station.

The City has worked extremely hard to refinance the debt load and roll short-term notes subject to interest risk into long-term bonds. This move from short-term debt to long-term bonds will reduce the volatility often experienced with reissuing short-term notes at varying interest rates and also commits the City to making scheduled principal payments. This will ensure we begin the process of repaying the City's obligations.

In conclusion, the City of Marysville has committed itself to financial excellence in the coming years. The City of Marysville is also one of the first cities in Ohio to prepare its financial statements using the Governmental Accounting Standards Board reporting model outlined in GASB Statement No. 34. Our commitment to the residents of the City of Marysville should always be full disclosure of the financial position of the City.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to John Morehart, City Finance Director, 125 East Sixth Street, Marysville, Ohio, 43040, (937) 642-6015, or e-mail at jmorehart@marysvilleohio.org.

City of Marysville
Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$3,997,499	\$3,535,874	\$7,533,373
Property Taxes Receivable	1,378,565	0	1,378,565
Municipal Income Taxes Receivable	1,471,498	0	1,471,498
Accounts Receivable	166,285	925,152	1,091,437
Special Assessments Receivable	337,410	0	337,410
Interest Receivable	9,260	0	9,260
Due from Other Governments	708,363	281,628	989,991
Prepaid Items	72,506	106,530	179,036
Restricted:			
Equity in Pooled Cash and Cash Equivalents	0	4,282,221	4,282,221
Cash and Cash Equivalents with Fiscal Agent	0	1,365,019	1,365,019
Land	1,084,725	1,668,500	2,753,225
Depreciable Capital Assets, Net	32,296,494	36,385,762	68,682,256
Total Assets	41,522,605	48,550,686	90,073,291
Liabilities			
Accrued Wages Payable	250,727	63,230	313,957
Accounts Payable	139,909	244,234	384,143
Contracts Payable	5,297	17,070	22,367
Due to Other Governments	487,906	92,834	580,740
Accrued Interest Payable	67,868	62,536	130,404
Notes Payable	0	6,804,000	6,804,000
Retainage Payable	3,730	6,645	10,375
Deferred Revenue	1,350,859	0	1,350,859
Long-Term Liabilities:			
Due Within One Year	1,690,427	947,317	2,637,744
Due in More than One Year	8,968,971	16,226,334	25,195,305
Total Liabilities	12,965,694	24,464,200	37,429,894
Net Assets			
Invested in Capital Assets, Net of Related Debt	23,285,590	14,250,587	37,536,177
Restricted for:			
Capital Projects	250,181	0	250,181
Debt Service	284,455	0	284,455
Other Purposes	1,678,962	0	1,678,962
Sewer Reserve	0	37,107	37,107
Sewer Replacement and Improvement	0	2,206,727	2,206,727
Water Replacement and Improvement	0	2,038,387	2,038,387
Future Debt	0	817,803	817,803
Unrestricted	3,057,723	4,735,875	7,793,598
Total Net Assets	\$28,556,911	\$24,086,486	\$52,643,397

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues			Net (Expense) Revenue and Change in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$1,850,246	\$33,940	\$0	\$0	(\$1,816,306)	\$0	(\$1,816,306)
Security of Persons and Property:							
Police	2,716,753	113,497	171,936	0	(2,431,320)	0	(2,431,320)
Fire	2,711,343	684,401	59,790	0	(1,967,152)	0	(1,967,152)
Other	558,295	581,421	46,033	0	69,159	0	69,159
Public Health Services	317,303	56,018	0	0	(261,285)	0	(261,285)
Leisure Time Activities	316,948	212,195	40,000	0	(64,753)	0	(64,753)
Transportation	2,282,617	0	549,891	0	(1,732,726)	0	(1,732,726)
Community Environment	470,884	0	0	0	(470,884)	0	(470,884)
Interest and Fiscal Charges	511,610	0	0	0	(511,610)	0	(511,610)
Total Governmental Activities	11,735,999	1,681,472	867,650	0	(9,186,877)	0	(9,186,877)
Business-Type Activities							
Sanitation	865,185	877,811	0	0	0	12,626	12,626
Sewer	3,328,295	5,669,230	0	0	0	2,340,935	2,340,935
Water	3,628,656	4,860,691	0	99,387	0	1,331,422	1,331,422
Total Business-Type Activities	7,822,136	11,407,732	0	99,387	0	3,684,983	3,684,983
Total	\$19,558,135	\$13,089,204	\$867,650	\$99,387	(9,186,877)	3,684,983	(5,501,894)
General Revenues							
Property Taxes					1,373,320	0	1,373,320
Other Local Taxes					62,838	0	62,838
Municipal Income Taxes					6,245,289	0	6,245,289
Grants and Entitlements not Restricted to Specific Programs					1,061,165	0	1,061,165
Interest					104,164	40,587	144,751
Contributions and Donations					13,795	0	13,795
Other Revenues					637,147	154,433	791,580
Total General Revenues					9,497,718	195,020	9,692,738
Change in Net Assets					310,841	3,880,003	4,190,844
Net Assets Beginning of Year					28,246,070	20,206,483	48,452,553
Net Assets End of Year					\$28,556,911	\$24,086,486	\$52,643,397

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Balance Sheet
Governmental Funds
December 31, 2003

	General Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,261,819	\$14,913	\$1,720,767	\$3,997,499
Receivables:				
Property Taxes	1,194,667	0	183,898	1,378,565
Municipal Income Taxes	1,471,498	0	0	1,471,498
Accounts	85,239	0	81,046	166,285
Special Assessments	0	337,410	0	337,410
Interest	9,089	0	171	9,260
Due from Other Governments	458,683	0	249,680	708,363
Prepaid Items	61,756	0	10,750	72,506
Total Assets	\$5,542,751	\$352,323	\$2,246,312	\$8,141,386
Liabilities and Fund Balance				
Liabilities				
Accounts Payable	\$104,998	\$0	\$34,911	\$139,909
Contracts Payable	0	0	5,297	5,297
Retainage Payable	0	0	3,730	3,730
Accrued Wages Payable	230,429	0	20,298	250,727
Due to Other Governments	34,053	0	2,962	37,015
Deferred Revenue	2,077,783	337,410	373,680	2,788,873
Total Liabilities	2,447,263	337,410	440,878	3,225,551
Fund Balance				
Reserved for Encumbrances	97,262	0	196,373	293,635
Unreserved, Reported in:				
General Fund	2,998,226	0	0	2,998,226
Special Revenue Funds	0	0	1,448,120	1,448,120
Debt Service Fund	0	14,913	0	14,913
Capital Projects Funds	0	0	160,941	160,941
Total Fund Balance	3,095,488	14,913	1,805,434	4,915,835
Total Liabilities and Fund Balance	\$5,542,751	\$352,323	\$2,246,312	\$8,141,386

See Accompanying Notes to the Basic Financial Statements

City of Marysville
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2003

Total Governmental Fund Balance \$4,915,835

Amounts reported for governmental activities in the
 statement of net assets are different due to:

Capital assets used in governmental activities are not financial
 resources and, therefore, are not reported in the funds 33,381,219

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

Property Taxes	27,706
Municipal Income Taxes	518,954
Special Assessments	337,410
Fees, Licenses, and Permits	38,704
Charges for Services	25,103
Intergovernmental	493,490
Transportation Expense	<u>(3,353)</u>

Total 1,438,014

Due to other governments includes contractually required
 pension contributions not expected to be paid with
 available expendable resources and, therefore, are not
 reported in the funds (450,891)

Long-term liabilities, including accrued interest payable and
 bonds and notes payable, are not due and payable in the current
 period and, therefore, are not reported in the funds:

Accrued Interest Payable	(67,868)
Notes Payable	(835,000)
Compensated Absences Payable	(563,769)
Capital Leases Payable	(85,629)
Special Assessment Bonds Payable	(10,000)
General Obligation Bonds Payable	<u>(9,165,000)</u>

Total (10,727,266)

Net Assets of Governmental Activities \$28,556,911

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2003

	General Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$1,204,522	\$0	\$182,418	\$1,386,940
Other Local Taxes	62,838	0	0	62,838
Municipal Income Taxes	6,035,967	0	0	6,035,967
Special Assessments	0	25,400	0	25,400
Charges for Services	945,060	0	402,992	1,348,052
Fees, Licenses, and Permits	305,858	0	102,496	408,354
Fines and Forfeitures	370,151	0	154,299	524,450
Intergovernmental	1,350,124	0	556,633	1,906,757
Interest	100,415	1,300	2,449	104,164
Contributions and Donations	13,795	0	40,000	53,795
Other Revenues	26,561	0	7,238	33,799
Total Revenues	10,415,291	26,700	1,448,525	11,890,516
Expenditures				
Current:				
General Government	1,847,309	0	47,230	1,894,539
Security of Persons and Property:				
Police	2,415,904	0	189,686	2,605,590
Fire	2,109,259	0	443,755	2,553,014
Other	525,583	0	35,796	561,379
Leisure Time Activities	239,480	0	22,282	261,762
Transportation	0	0	891,904	891,904
Public Health Services	304,457	0	210	304,667
Community Environment	452,014	0	0	452,014
Capital Outlay	58,150	0	206,296	264,446
Debt Service:				
Principal Retirement	23,341	1,320,000	68	1,343,409
Interest and Fiscal Charges	2,077	518,004	7	520,088
Total Expenditures	7,977,574	1,838,004	1,837,234	11,652,812
Excess of Revenues Over (Under) Expenditures	2,437,717	(1,811,304)	(388,709)	237,704
Other Financing Sources (Uses)				
Bond Anticipation Notes Issued	0	835,000	0	835,000
Proceeds from Sale of Fixed Assets	500	0	0	500
Inception of Capital Lease	26,492	0	0	26,492
Transfers In	0	956,665	472,744	1,429,409
Transfers Out	(1,429,409)	0	0	(1,429,409)
Total Other Financing Sources (Uses)	(1,402,417)	1,791,665	472,744	861,992
Net Change in Fund Balance	1,035,300	(19,639)	84,035	1,099,696
Fund Balance Beginning of Year	2,060,188	34,552	1,721,399	3,816,139
Fund Balance End of Year	\$3,095,488	\$14,913	\$1,805,434	\$4,915,835

See Accompanying Notes to the Basic Financial Statements

City of Marysville
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance
 of Governmental Funds to Statement of Activities
 For the Year Ended December 31, 2003

Net Change in Fund Balance - Total Governmental Funds		\$1,099,696
<p>Amounts reported for governmental activities in the statement of activities are different due to:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay expense in the current period.</p>		
	(1,294,361)	
<p>The net effect of various miscellaneous transactions involving capital assets acquired by capital lease (i.e. sales and trade-ins) is to decrease net assets.</p>		
	(26,492)	
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Intergovernmental Receivable	(20,245)	
Municipal Income Taxes Receivable	209,322	
Property Taxes Receivable	(3,680)	
Accounts Receivable	15,528	
Special Assessments Receivable	<u>(25,400)</u>	
		175,525
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of activities.</p>		
		1,343,409
<p>Note proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities in the statement of activities.</p>		
		(835,000)
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		8,478
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated Absences Payable	(23,094)	
Intergovernmental Payables	<u>(137,320)</u>	
		175,525
Change in Net Assets of Governmental Activities		<u><u>\$310,841</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$1,348,250	\$1,348,250	\$1,204,522	(\$143,728)
Other Local Taxes	75,000	75,000	74,076	(924)
Municipal Income Taxes	5,870,541	5,870,541	6,108,257	237,716
Charges for Services	1,331,934	1,331,934	1,474,911	142,977
Fees, Licenses, and Permits	305,900	305,900	303,158	(2,742)
Fines and Forfeitures	395,620	395,620	376,193	(19,427)
Intergovernmental	877,215	877,215	1,279,913	402,698
Interest	152,000	152,000	100,020	(51,980)
Contributions and Donations	8,000	8,000	13,795	5,795
Other Revenues	45,000	45,000	40,555	(4,445)
Total Revenues	<u>10,409,460</u>	<u>10,409,460</u>	<u>10,975,400</u>	<u>565,940</u>
Expenditures:				
Current:				
General Government	3,088,219	3,090,972	3,035,863	55,109
Security of Persons and Property:				
Police	2,264,693	2,266,793	2,272,736	(5,943)
Fire	1,830,137	2,031,851	2,008,065	23,786
Other	494,508	494,508	468,022	26,486
Leisure Time Activities	273,210	251,130	253,259	(2,129)
Community Environment	477,719	490,739	472,183	18,556
Public Health Services	312,992	307,832	281,481	26,351
Total Expenditures	<u>8,741,478</u>	<u>8,933,825</u>	<u>8,791,609</u>	<u>142,216</u>
Excess of Revenues Over Expenditures	<u>1,667,982</u>	<u>1,475,635</u>	<u>2,183,791</u>	<u>708,156</u>
Other Financing Sources (Uses):				
Proceeds on Sale of Fixed Assets	10,000	10,000	500	(9,500)
Transfers Out	(1,522,545)	(1,457,819)	(1,429,409)	28,410
Total Other Financing Sources (Uses)	<u>(1,512,545)</u>	<u>(1,447,819)</u>	<u>(1,428,909)</u>	<u>18,910</u>
Net Change in Fund Balance	155,437	27,816	754,882	727,066
Fund Balance Beginning of Year	851,675	851,675	851,675	0
Prior Year Encumbrances Appropriated	474,199	474,199	474,199	0
Fund Balance End of Year	<u>\$1,481,311</u>	<u>\$1,353,690</u>	<u>\$2,080,756</u>	<u>\$727,066</u>

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Net Assets
Enterprise Funds
December 31, 2003

	Sanitation	Sewer	Water	Total
Assets				
Current Assets				
Equity in Pooled Cash and Cash Equivalents	\$185,133	\$2,035,029	\$1,315,712	\$3,535,874
Accounts Receivable	70,293	487,093	367,766	925,152
Due from Other Governments	0	132,318	149,310	281,628
Prepaid Items	955	61,987	43,588	106,530
Total Current Assets	256,381	2,716,427	1,876,376	4,849,184
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	0	2,243,834	2,038,387	4,282,221
Cash and Cash Equivalents with Fiscal Agents	0	779,834	585,185	1,365,019
Total Restricted Assets	0	3,023,668	2,623,572	5,647,240
Non-Current Assets				
Land	0	6,000	1,662,500	1,668,500
Depreciable Capital Assets, Net	129,903	17,690,983	18,564,876	36,385,762
Total Non-Current Assets	129,903	17,696,983	20,227,376	38,054,262
Total Assets	386,284	23,437,078	24,727,324	48,550,686
Liabilities				
Current Liabilities				
Accrued Wages Payable	5,793	30,065	27,372	63,230
Accounts Payable	63,110	129,914	51,210	244,234
Contracts Payable	0	17,070	0	17,070
Due to Other Governments	8,650	40,848	43,336	92,834
Retainage Payable	0	6,645	0	6,645
Accrued Interest Payable	0	31,672	30,864	62,536
Notes Payable	0	6,804,000	0	6,804,000
Capital Leases Payable	0	58	398	456
Compensated Absences Payable	3,337	49,693	46,615	99,645
General Obligation Bonds Payable	0	135,750	164,250	300,000
Payable from Restricted Assets:				
Mortgage Revenue Bonds Payable	0	70,000	477,216	547,216
Total Current Liabilities	80,890	7,315,715	841,261	8,237,866
Non-Current Liabilities				
Compensated Absences Payable	7,078	14,971	52,282	74,331
General Obligation Bonds Payable	0	1,432,250	1,952,750	3,385,000
Mortgage Revenue Bonds Payable	0	340,000	12,427,003	12,767,003
Total Non-Current Liabilities	7,078	1,787,221	14,432,035	16,226,334
Total Liabilities	87,968	9,102,936	15,273,296	24,464,200
Net Assets				
Invested in Capital Assets, Net of Related Debt	129,903	8,914,925	5,205,759	14,250,587
Restricted for:				
Sewer Reserve	0	37,107	0	37,107
Sewer Replacement and Improvement	0	2,206,727	0	2,206,727
Water Replacement and Improvement	0	0	2,038,387	2,038,387
Future Debt	0	709,834	107,969	817,803
Unrestricted (Deficit)	168,413	2,465,549	2,101,913	4,735,875
Total Net Assets	\$298,316	\$14,334,142	\$9,454,028	\$24,086,486

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Revenues, Expenses, and Changes in Net Assets
Enterprise Funds
For the Year Ended December 31, 2003

	<u>Sanitation</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating Revenues				
Charges for Services	\$877,811	\$4,195,311	\$3,913,632	\$8,986,754
Tap-In Fees	0	1,473,919	947,059	2,420,978
Other Revenues	122	4,290	150,021	154,433
Total Operating Revenues	<u>877,933</u>	<u>5,673,520</u>	<u>5,010,712</u>	<u>11,562,165</u>
Operating Expenses				
Personal Services	173,453	893,708	926,535	1,993,696
Contractual Services	604,475	1,123,832	463,369	2,191,676
Materials and Supplies	44,767	275,018	400,893	720,678
Other Expenses	8,896	86,468	29,064	124,428
Depreciation	21,210	674,533	640,866	1,336,609
Total Operating Expenses	<u>852,801</u>	<u>3,053,559</u>	<u>2,460,727</u>	<u>6,367,087</u>
Operating Income	<u>25,132</u>	<u>2,619,961</u>	<u>2,549,985</u>	<u>5,195,078</u>
Non-Operating Revenues (Expenses)				
Loss on Sale of Fixed Assets	(12,384)	0	0	(12,384)
Interest Revenue	0	2,257	38,330	40,587
Interest Expense	0	(274,736)	(1,011,902)	(1,286,638)
Other Non-Operating Expenses	0	0	(156,027)	(156,027)
Total Non-Operating Revenues (Expenses)	<u>(12,384)</u>	<u>(272,479)</u>	<u>(1,129,599)</u>	<u>(1,414,462)</u>
Income before Contributions	12,748	2,347,482	1,420,386	3,780,616
Capital Contributions	<u>0</u>	<u>0</u>	<u>99,387</u>	<u>99,387</u>
Change in Net Assets	12,748	2,347,482	1,519,773	3,880,003
Net Assets Beginning of Year	<u>285,568</u>	<u>11,986,660</u>	<u>7,934,255</u>	<u>20,206,483</u>
Net Assets End of Year	<u>\$298,316</u>	<u>\$14,334,142</u>	<u>\$9,454,028</u>	<u>\$24,086,486</u>

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2003

	<u>Sanitation</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Increases (Decreases) in Cash and Cash Equivalents				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$894,509	\$5,558,630	\$4,945,190	\$11,398,329
Cash Payments for Personal Services	(175,105)	(914,659)	(957,711)	(2,047,475)
Cash Payments to Suppliers	(636,104)	(1,460,166)	(1,016,102)	(3,112,372)
Net Cash Provided by (Used for) Operating Activities	<u>83,300</u>	<u>3,183,805</u>	<u>2,971,377</u>	<u>6,238,482</u>
Cash Flows from Noncapital Financing Activities:				
Other Expenses	<u>0</u>	<u>0</u>	<u>(156,027)</u>	<u>(156,027)</u>
Net Cash Used for Noncapital Financing Activities	<u>0</u>	<u>0</u>	<u>(156,027)</u>	<u>(156,027)</u>
Cash Flows from Capital and Related Financing Activities:				
Principal Paid on General Obligation Bonds	0	(128,050)	(156,950)	(285,000)
Interest Paid on General Obligation Bonds	0	(114,113)	(127,308)	(241,421)
Principal Paid on Mortgage Revenue Bonds	0	(300,000)	(842,886)	(1,142,886)
Interest Paid on Mortgage Revenue Bonds	0	(34,016)	(810,244)	(844,260)
Principal Paid on Bond Anticipation Notes	0	(6,494,000)	0	(6,494,000)
Interest Paid on Bond Anticipation Notes	0	(139,521)	0	(139,521)
Principal Paid on Capital Leases	0	(68)	(1,061)	(1,129)
Interest Paid on Capital Leases	0	(7)	(46)	(53)
Bond Anticipation Notes Issued	0	6,804,000	0	6,804,000
Debt Issuance Costs	0	0	(99,096)	(99,096)
Acquisition of Fixed Assets	(50,521)	(550,889)	(349,095)	(950,505)
Net Cash Used for Capital and Related Financing Activities	<u>(50,521)</u>	<u>(956,664)</u>	<u>(2,386,686)</u>	<u>(3,393,871)</u>
Cash Flows from Investing Activities:				
Interest	<u>0</u>	<u>2,257</u>	<u>38,330</u>	<u>40,587</u>
Net Cash Provided by Investing Activities	<u>0</u>	<u>2,257</u>	<u>38,330</u>	<u>40,587</u>
Net Increase (Decrease) in Cash and Cash Equivalents	32,779	2,229,398	466,994	2,729,171
Cash and Cash Equivalents Beginning of Year	<u>152,354</u>	<u>2,829,299</u>	<u>3,472,290</u>	<u>6,453,943</u>
Cash and Cash Equivalents End of Year	<u>\$185,133</u>	<u>\$5,058,697</u>	<u>\$3,939,284</u>	<u>\$9,183,114</u>

(continued)

City of Marysville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2003
(continued)

	<u>Sanitation</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities				
Operating Income	\$25,132	\$2,619,961	\$2,549,985	\$5,195,078
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Depreciation	21,210	674,533	640,866	1,336,609
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	16,576	(59,226)	(14,646)	(57,296)
(Increase) Decrease in Due from Other Governments	0	(55,664)	(50,876)	(106,540)
(Increase) Decrease in Prepaid Items	(632)	(15,115)	(22,057)	(37,804)
Increase (Decrease) in Accounts Payable	22,666	66,354	(8,252)	80,768
Increase (Decrease) in Contracts Payable	0	(32,732)	(92,467)	(125,199)
Increase (Decrease) in Retainage Payable	0	6,645	0	6,645
Increase (Decrease) in Accrued Wages Payable	331	2,568	782	3,681
Increase (Decrease) in Due to Other Governments	(4,338)	(17,376)	(18,677)	(40,391)
Increase (Decrease) in Compensated Absences Payable	2,355	(6,143)	(13,281)	(17,069)
Net Cash Provided by (Used for) Operating Activities	<u>\$83,300</u>	<u>\$3,183,805</u>	<u>\$2,971,377</u>	<u>\$6,238,482</u>

Non-Cash Capital Transactions:

During 2003, capital assets were constructed by Union County, in the amount of \$99,387 and were donated to the Water enterprise fund. These assets were capitalized and recorded as capital contributions in the Water enterprise fund.

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2003

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$7,389
Cash and Cash Equivalents in Segregated Accounts	<u>110,180</u>
Total Assets:	<u><u>\$117,569</u></u>
Liabilities:	
Undistributed Assets	<u><u>\$117,569</u></u>

See Accompanying Notes to the Basic Financial Statements

NOTE 1 - REPORTING ENTITY

The City of Marysville is a charter municipal corporation founded in 1837, with the charter adopted by the electors on December 1, 1960, and updated on November 6, 2001. The City may exercise all powers of home rule granted under Article XVIII, Section 3 of the Ohio Constitution not in conflict with applicable general laws of Ohio.

The City operates under a council/mayor/administrator form of government. Services provided include general administration as well as police, fire, ambulance, municipal court, engineering, planning and zoning, street maintenance and repair, parks and recreation, a cemetery, and sanitation, sewer, and water utilities.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Marysville, this includes the Marysville Municipal Court and all departments and activities that are directly operated by the elected City officials.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Marysville in 2003.

The City is associated with the Marysville/Union County Joint Recreation District and the Union County Community Improvement Corporation; each are jointly governed organizations. These organizations are more fully described in Note 21 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected to follow GASB guidance for business-type activities and enterprise funds rather than FASB guidance issued after November 30, 1989.

A. Basis of Presentation

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Service Fund - The debt service fund accounts for special assessment revenue, proceeds of bonds/notes, and transfers used to pay debt principal and interest.

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

Proprietary Funds

Proprietary funds focus on the changes in net assets, financial position, and cash flows. The City's proprietary funds are enterprise funds.

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

Sanitation Fund - The sanitation fund accounts for the provision of solid waste disposal service to residents and commercial users within the City.

Sewer Fund - The sewer fund accounts for the provision of wastewater collection and treatment service to residents and commercial users within the City.

Water Fund - The water fund accounts for the provision of water treatment and distribution to residential and commercial users within the City.

Fiduciary Funds

Fiduciary funds focus on net assets and changes in net assets. There are four categories of fiduciary funds; pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2003. The City's agency funds, which account for fees charged by the law library, municipal court operations, and unclaimed funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2003, but were levied to finance 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

E. Budgets

An annual appropriated budget is legally required to be prepared for all funds of the City, other than agency funds. City Council passes appropriations at the department/object level. City Council must approve any budget revisions that alter the appropriations at the legal level of budgetary control. The following procedures are used by the City in establishing the budgetary data reported in the basic financial statements:

Tax Budget

Unless specifically waived by the County Budget Commission, a budget of estimated revenues and expenditures for all funds, other than agency funds, is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. If the requirement to file this tax budget is waived by the County Budget Commission, other financial documentation may be requested for review of the City's financial status.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimated Resources

The County Budget Commission reviews estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate of estimated resources may be further amended during the year if the Finance Director determines, and the County Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported in the budgetary statements as “original” represent the amounts in the amended official certificate of estimated resources in place at the time original appropriations were adopted. The amounts reported in the budgetary statements as “final” reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

Appropriations

A temporary appropriations ordinance to control expenditures may be passed on or about January 1 of each year, for the period January 1 to March 31. An annual appropriations ordinance must be passed by April 1 of each year, for the period January 1 to December 31. The appropriations ordinance may be supplemented during the year, by City Council action, as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. During the year, numerous supplemental appropriations ordinances were passed by City Council. The amounts reported as the original budgeted amounts in the statement of budgetary comparisons reflect the first appropriated budget that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts in the statement of budgetary comparisons represent the final appropriation amounts passed during the year, including all amendments and modifications.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding year and are not reappropriated.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the fund financial statements, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent-year expenditures of governmental funds. A reserve for encumbrances is not reported on the government-wide financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Investments

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

Cash and cash equivalents that are held separately within departments of the City, and not included in the City Treasury, are recorded as "Cash and Cash Equivalents in Segregated Accounts".

The City utilizes financial institutions as trustees to service its mortgage revenue bonded debt as principal and interest payments come due. Money held by trustees is invested in mutual funds and is presented as "Cash and Cash Equivalents with Fiscal Agents".

Investments are reported at fair value, except for repurchase agreements which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2003.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2003 was \$100,415, which includes \$82,093 assigned from other City funds.

For purposes of the statement of cash flows and for presentation on the balance sheet/statement of net assets, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method. This includes recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Restricted Assets

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the enterprise funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of one thousand dollars. The City's infrastructure consists of streets, bridges, storm and sanitary sewer lines, and water lines. Improvements are capitalized. Interest incurred during the construction of fund capital assets is also capitalized.

All capital assets are depreciated, except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings	40 years	40 years
Improvements Other Than Buildings	15 years	15 years
Computers and Computer Equipment	5 to 10 years	5 to 10 years
Furniture and Equipment	5 to 10 years	5 to 10 years
Vehicles	5 to 10 years	10 years
Infrastructure	40 years	40 years

J. Inter-fund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as "Inter-fund Receivables/Payables". Inter-fund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only inter-fund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". There were no inter-fund receivables/payables at December 31, 2003.

K. Compensated Absences

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

On fund financial statements for governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Notes, capital leases, and bonds are recognized as liabilities on the fund financial statements when due.

M. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Encumbrances are recorded as a reservation of fund balance.

N. Net Assets

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

The City's sewer and water enterprise funds have restricted net assets relative to those resources necessary to comply with various covenants of bond financing agreements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for sanitation, sewer, and water utility services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund.

P. Capital Contributions

Contributions of capital in the enterprise fund financial statements arise from outside contributions of fixed assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

Q. Inter-fund Transactions

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

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during 2003.

S. Estimates

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

The adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the General Fund are as follows:

Net Change in Fund Balance	
GAAP Basis	\$1,035,300
<u>Increases (Decreases) Due To</u>	
Revenue Accruals	560,109
Expenditure Accruals	(608,015)
Prepaid Items	(61,756)
Inception of Capital Lease	(26,492)
Encumbrances Outstanding At Year-End (Budget Basis)	(144,264)
Budget Basis	<u><u>\$754,882</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that City Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

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

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

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

At year-end, the City had \$2,835 in undeposited cash on hand which is included on the statement of net assets as part of "Equity in Pooled Cash and Cash Equivalents".

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year-end, the carrying amount of the City's deposits was \$1,533,754 and the bank balance was \$1,638,425. Of the bank balance, \$340,567 was covered by federal depository insurance and \$1,297,858 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered for which the securities are held by the City or the City's agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. Mutual funds and STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 1	Category 3	Carrying Value	Fair Value
Mutual Funds	\$0	\$0	\$1,365,019	\$1,365,019
Repurchase Agreements	0	4,318,415	4,318,415	4,318,415
City of Marysville Bonds	10,000	0	10,000	10,000
STAR Ohio	0	0	6,068,159	6,068,159
Total	<u>\$10,000</u>	<u>\$4,318,415</u>	<u>\$11,761,593</u>	<u>\$11,761,593</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$13,298,182	\$0
Cash on Hand	(2,835)	0
Investments:		
Mutual Funds	(1,365,019)	1,365,019
Repurchase Agreements	(4,318,415)	4,318,415
City of Marysville Bonds	(10,000)	10,000
STAR Ohio	(6,068,159)	6,068,159
GASB Statement No. 3	\$1,533,754	\$11,761,593

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property tax revenues received in 2003 represent the collection of 2002 taxes. For 2003, real property taxes were levied after October 1, 2002, on the assessed values as of January 1, 2003, the lien date. These taxes will be collected in and are intended to finance 2004 operations. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2001. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes for 2003 were levied after October 1, 2003, on the assessed values as of December 31, 2002. These taxes will be collected in and are intended to finance 2004 operations. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2003 taxes. For 2003, tangible personal property taxes were levied after October 1, 2002, on the true value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Marysville. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2003 operations.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 7 - PROPERTY TAXES (continued)

The full tax rate for all City operations for the year ended December 31, 2003, was \$4.50 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2003 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$189,484,000
Commercial/Industrial	84,070,040
Public Utility Real	108,350
Public Utility Personal	9,398,420
Tangible Personal	61,116,835
Total Assessed Value	\$344,177,645

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies an income tax of 1 percent on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of up to 50 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City on a monthly or quarterly basis depending on the amount being withheld. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax revenues and expenditures for collecting, administering, and enforcing the tax are recorded in the General Fund. Filing is required and returns are due by April 15.

NOTE 9 - RECEIVABLES

Receivables at December 31, 2003, consisted of interest; taxes; accounts (billings for user charged services, including unbilled utility services); special assessments; and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund	
State of Ohio	\$71,814
Local Government	287,704
Union County	66,427
Municipal Court	28,782
COPS (in Schools) Grant	3,956
Total General Fund	\$458,683

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 9 - RECEIVABLES (continued)

Special Revenue Funds	
Police Pension	
State of Ohio	\$4,970
Fire Pension	
State of Ohio	4,970
Street Construction and Repair	
Gas Tax	167,112
Motor Vehicle License Tax	54,625
State Highway Improvement	
Gas Tax	13,575
Motor Vehicle License Tax	<u>4,428</u>
Total Special Revenue Funds	<u>249,680</u>
Total Governmental Activities	<u>708,363</u>
Enterprise Funds	
Sewer	
Union County	132,318
Water	
Union County	<u>149,310</u>
Total Business-Type Activities	<u>281,628</u>
Total All Funds	<u><u>\$989,991</u></u>

NOTE 10 – INTER-FUND TRANSFERS

Inter-fund transfers for the year ended December 31, 2003, consist of the following:

		<u>Transfer From</u>
		<u>General</u>
Transfer To	Debt Service	\$956,665
	Other Governmental Funds	<u>472,744</u>
	Total	<u><u>\$1,429,409</u></u>

Transfers are used as operating subsidies to cover expenses incurred over revenues brought in.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 11 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance at 12/31/2002	Additions	Reductions	Balance at 12/31/2003
Governmental Activities				
Land	\$1,084,725	\$0	\$0	\$1,084,725
Depreciable Capital Assets				
Buildings	3,242,953	0	0	3,242,953
Improvements Other Than Buildings	1,532,961	207,787	0	1,740,748
Computers and Computer Equipment	43,348	29,580	0	72,928
Furniture and Equipment	917,917	40,191	(25,089)	933,019
Vehicles	1,992,126	0	0	1,992,126
Infrastructure				
Bridges	310,428	0	0	310,428
Roads	62,195,740	0	0	62,195,740
Storm Sewers	2,932,297	0	0	2,932,297
Other	1,437,924	152,176	0	1,590,100
Construction in Progress	16,529	33,390	(16,529)	33,390
Total Depreciable Capital Assets	<u>74,622,223</u>	<u>463,124</u>	<u>(41,618)</u>	<u>75,043,729</u>
Total Capital Assets at Historical Cost	<u>75,706,948</u>	<u>463,124</u>	<u>(41,618)</u>	<u>76,128,454</u>
Less: Accumulated Depreciation				
Buildings	(1,209,822)	(78,163)	0	(1,287,985)
Improvements Other Than Buildings	(528,968)	(86,836)	0	(615,804)
Computers and Computer Equipment	(19,902)	(9,073)	0	(28,975)
Furniture and Equipment	(346,122)	(94,001)	17,120	(423,003)
Vehicles	(1,200,681)	(152,258)	0	(1,352,939)
Infrastructure				
Bridges	(68,266)	(3,932)	0	(72,198)
Roads	(37,074,631)	(1,207,595)	0	(38,282,226)
Storm Sewers	(431,220)	(73,307)	0	(504,527)
Other	(143,788)	(35,790)	0	(179,578)
Total Accumulated Depreciation	<u>(41,023,400)</u>	<u>(1,740,955)</u>	<u>17,120</u>	<u>(42,747,235)</u>
Depreciable Capital Assets, Net	<u>33,598,823</u>	<u>(1,277,831)</u>	<u>(24,498)</u>	<u>32,296,494</u>
Governmental Activities Capital Assets, Net	<u>\$34,683,548</u>	<u>(\$1,277,831)</u>	<u>(\$24,498)</u>	<u>\$33,381,219</u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 11 - CAPITAL ASSETS (continued)

	Balance at 12/31/2002	Additions	Reductions	Balance at 12/31/2003
Business-Type Activities				
Land	\$1,668,500	\$0	\$0	\$1,668,500
Depreciable Capital Assets				
Buildings	9,757,973	0	0	9,757,973
Improvements Other Than Buildings	467,492	0	0	467,492
Computers and Computer Equipment	2,742	100,679	0	103,421
Furniture and Equipment	546,295	43,994	(20,640)	569,649
Vehicles	785,657	64,294	0	849,951
Infrastructure				
Sewer Lines	14,599,358	15,869	0	14,615,227
Water Lines	22,374,807	107,153	0	22,481,960
Construction in Progress	55,235	717,903	0	773,138
Total Depreciable Capital Assets at Historical Cost	48,589,559	1,049,892	(20,640)	49,618,811
Less: Accumulated Depreciation				
Buildings	(3,288,269)	(236,888)	0	(3,525,157)
Improvements Other Than Buildings	(6,232)	(11,687)	0	(17,919)
Computers and Computer Equipment	(274)	(10,560)	0	(10,834)
Furniture and Equipment	(303,495)	(56,726)	8,258	(351,963)
Vehicles	(479,632)	(60,909)	0	(540,541)
Infrastructure				
Sewer Lines	(3,177,533)	(391,802)	0	(3,569,335)
Water Lines	(4,649,263)	(568,037)	0	(5,217,300)
Total Accumulated Depreciation	(11,904,698)	(1,336,609)	8,258	(13,233,049)
Depreciable Capital Assets, Net	36,684,861	(286,717)	(12,382)	36,385,762
Business-Type Activities Capital Assets, Net	\$38,353,361	(\$286,717)	(\$12,382)	\$38,054,262

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 11 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental programs as follows:

General Government	\$133,444
Security of Persons and Property	
Police	40,138
Fire	80,665
Other	8,883
Public Health	17,425
Transportation	1,387,806
Community Environment	20,051
Leisure Time Activities	52,543
Total Depreciation Expense	<u><u>\$1,740,955</u></u>

NOTE 12 - RESTRICTED ASSETS

The following amounts, which are reflected on the statement of net assets, are restricted for various purposes.

<u>Assets:</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Equity in Pooled Cash and Cash Equivalents	\$1,735,680	\$4,282,221
Cash and Cash Equivalents with Fiscal Agent	0	1,365,019
Accounts Receivable	81,046	0
Due From Other Governments	249,680	0
Accrued Interest	171	0
Prepaid Items	10,750	0
Property Taxes Receivable	183,898	0
Special Assessments Receivable	337,410	0
Total Restricted Assets	<u>2,598,635</u>	<u>5,647,240</u>
Less Liabilities Payable from Restricted Assets	<u>(385,037)</u>	<u>(547,216)</u>
Restricted Net Assets	<u><u>\$2,213,598</u></u>	<u><u>\$5,100,024</u></u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted for the following insurance coverage:

Type of Coverage	Coverage	Deductible
Buildings	\$17,829,643	\$5,000
Personal Property	3,827,587	5,000
Liability	2,000,000	0
Wrongful Acts	2,000,000	1,000
Law Enforcement	2,000,000	2,000
Automobile	2,000,000	0
Bond	Unlimited	0
Electronic Data Processing	25,000 – 263,899	0

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

NOTE 14 - CONTRACTUAL COMMITMENTS

At December 31, 2003, the City had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Jones and Henry	Engineering - MillCreek Water/Sewer Line	\$12,573
Gannett-Fleming	Engineering - Raymond Road Reservoir	509,825
Jones and Henry	Engineering - New Water Well	55
Jones and Henry	Engineering MillCreek Sewer Lift Station	3,980
J.R. Mason	MillCreek Sewer Lift Station	8,325
Jones and Henry	Engineering - Joint Recreation District Water/Sewer Lines	9,183
Maintenance Unlimited	Construction - Joint Recreation District Water/Sewer Lines	152,528
Downing Construction	Water Plant Lime Slaking Machine	63,000
Black & White Technology	Ninth Street/London Avenue Traffic Signalization	4,880
Zimmerman Paint Contractors	Pavement Marking	1,706
Findlay Ford	Cab/Chassis	27,300
Schodorf Truck Body	Truck Bed	36,897
Edsall & Assoc./Acorn Farms/Wade & Gatton Nursery/Darby Creek Landscaping	Mill Creek Reforestation Project	74,185
Strawser Paving	Various Paving Projects	135,990
Workman Industrial	Carbon Dioxide Tank for Water Treatment Plant	110,000
Kirk Brothers	Anaerobic Digester for Wastewater Treatment Plant	18,155
Total		<u>\$1,168,582</u>

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City contributes to the Ohio Public Employees Retirement System (the "System"). The System administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

The System provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

Authority to establish and amend benefits is established by Chapter 145 of the Ohio Revised Code. The System issues a stand-alone publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642. Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent; 8.55 percent was the portion used to fund pension obligations for 2003. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's contributions to the System for the years ended December 31, 2003, 2002, and 2001 were \$547,975, \$352,171, and \$341,166, respectively; 73.27 percent has been contributed for 2003 and 100 percent has been contributed for 2002 and 2001. The unpaid contribution for 2003, in the amount of \$146,450, is recorded as a liability.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. The City's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$637,973, \$388,886, and \$367,558, respectively; 70.0 percent has been contributed for 2003 and 100 percent has been contributed for 2002 and 2001. The unpaid contribution for 2003, in the amount of \$193,484, is recorded as a liability.

NOTE 16 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (the "System") provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit enrolled in the Traditional or Combined Plans. Members of the Member-Defined Plan do not qualify for ancillary benefits, including post-employment health care coverage. Health care coverage for disability and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the System is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 employer contribution rate for local government employers was 13.55 percent of covered payroll; 5 percent was the portion used to fund health care for 2003. In 2002, the employer contribution rate was 13.55 percent of covered payroll; 5 percent was the portion used to fund health care.

Benefits are advance funded using the entry age normal actuarial cost method. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfounded actuarial accrued liability. Significant actuarial assumptions include a rate of return on investments of eight percent, an annual increase in active employee total payroll of four percent compounded annually, and an additional increase in total payroll of .50 percent to 6.3 percent based on additional pay increases. Health care premiums were assumed to increase four percent annually. OPEB are financed through employer contributions and investment earnings. At December 31, 2003, the total number of active contributing participants in the Traditional and Combined Plans was 364,881. As of December 31, 2002, the actuarial value of net assets available for future OPEB payments were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial liability were \$18.7 billion and \$8.7 billion, respectively. The City's actual contributions for 2003 which were used to fund OPB were \$ 202,203.

In December, 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (the "Fund") provides access to post-retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen, whether or not the child is attending school, or under the age of twenty-two if attending school full-time or on a two-thirds basis.

NOTE 16 - POSTEMPLOYMENT BENEFITS (continued)

B. Ohio Police and Fire Pension Fund (continued)

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate was 19.5 percent of covered payroll and the firefighter employer contribution rate was 24 percent of covered payroll. The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2002 and in 2003. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2002, the date of the last actuarial valuation available, are 13,527 for police and 10,396 for firefighters. The City's actual contributions for 2003 that were used to fund post-employment benefits were \$112,742 for police and \$114,338 for firefighters. The Fund's total health care expenses for the year ended December 31, 2002, (the latest information available) were \$141,028,006, which was net of member contributions of \$12,623,875.

NOTE 17 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components is derived from negotiated agreements and State laws.

City employees earn vacation at various rates depending upon length of service and standard work week. Current policy permits vacation to be carried forward to the following year with some limitations. Employees are paid for 100 percent of accrued but unused vacation leave upon termination. Sick leave is earned at various rates as defined by City policy and union contracts. Current policy permits sick leave to be accumulated without limit. Non-union employees earn sick leave at a rate of four and six-tenths hours for every eighty hours worked or six and nine-tenths hours for twenty-four shifts. Upon retirement non-union employees shall receive one-fourth of accrued but unused sick leave up to four hundred eighty hours.

Union employees earn sick leave at various rates depending on the union. Upon retirement certain police employees receive payment for one-third of accrued but unused sick leave to a limit in accordance with State law. Certain fire employees receive payment for one-fourth of accrued but unused sick leave up to four hundred eighty hours.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 18 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2003, were as follows:

Fund/Issues	Interest Rate	Balance 01/01/03	Additions	Reductions	Balance 12/31/03
Governmental Activities					
2002 Vehicle and Equipment	2.02%	\$950,000	\$0	\$950,000	\$0
2003 Vehicle and Equipment	1.45%	0	835,000	0	835,000
Total Governmental Activities		<u>\$950,000</u>	<u>\$835,000</u>	<u>\$950,000</u>	<u>\$835,000</u>
Business-Type Activities					
Sewer Fund					
2002 Sewer System	2.01%	\$6,494,000	\$0	\$6,494,000	\$0
2003 Refunding Sewer Notes	1.68%	0	310,000	0	310,000
2003 Sewer System	1.41%	0	6,494,000	0	6,494,000
Total Business Type Activities		<u>\$6,494,000</u>	<u>\$6,804,000</u>	<u>\$6,494,000</u>	<u>\$6,804,000</u>

According to State statute, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. All of the City's bond anticipation notes are backed by the full faith and credit of the City of Marysville and have a maturity of one year.

NOTE 19 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2003, was as follows:

	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003	Amounts Due in One Year
<u>Governmental Activities</u>					
General Obligation Bonds					
1986 Building Improvement - 7.38%	\$120,000	\$0	\$30,000	\$90,000	\$30,000
2000 Various Purpose	9,410,000	0	335,000	9,075,000	350,000
Total General Obligation Bonds	<u>9,530,000</u>	<u>0</u>	<u>365,000</u>	<u>9,165,000</u>	<u>380,000</u>
Special Assessment Bonds					
1995 Special Assessment - 6.50%	15,000	0	5,000	10,000	5,000
Other Long-Term Obligations					
Compensated Absences Payable	540,675	563,769	540,675	563,769	445,039
Capital Leases Payable	90,514	18,524	23,409	85,629	25,388
Total Other Long-Term Obligations	<u>631,189</u>	<u>582,293</u>	<u>564,084</u>	<u>649,398</u>	<u>470,427</u>
Total Governmental Activities	<u>\$ 10,176,189</u>	<u>\$582,293</u>	<u>\$934,084</u>	<u>\$ 9,824,398</u>	<u>\$ 855,427</u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003	Amounts Due in One Year
<u>Business-Type Activities</u>					
<u>General Obligation Bonds</u>					
1992 Sewer System Improvement – 6.70-7.15%	\$855,000	\$0	\$70,000	\$785,000	\$75,000
1994 Various Improvement – 4.50- 5.55%	3,115,000	0	215,000	2,900,000	225,000
Total General Obligation Bonds	3,970,000	0	285,000	3,685,000	300,000
<u>Mortgage Revenue Bonds</u>					
1988 Sewer System Mort Rev	475,000	0	65,000	410,000	70,000
1992 Sewer System Mort Rev	235,000	0	235,000	0	0
1993 Water System Mortgage Revenue	9,980,000	0	9,980,000	0	0
2002 Water System Mortgage Revenue	3,820,000	0	125,000	3,695,000	130,000
2003 Water System Mortgage Revenue	0	9,262,114	0	9,262,114	350,000
Unamortized Discount on Sale of Bonds	(55,679)	0	(2,784)	(52,895)	(2,784)
Total Mortgage Revenue Bonds	14,454,321	9,262,114	10,402,216	13,314,219	547,216
<u>Other Long-Term Obligations</u>					
Compensated Absences Payable	191,045	173,976	191,045	173,976	99,645
Capital Leases Payable	1,585	0	1,129	456	456
Total Other Long-Term Obligations	192,630	173,976	192,174	174,432	100,101
Total Business-Type Activities	\$18,616,951	\$9,436,090	\$10,879,390	\$17,173,651	\$947,317

Governmental Activities General Obligation Bonds

General obligation bonds consist of bonds issued in 1986 for renovating the City Municipal Building and issued in 2000 for various utility and other capital improvement projects throughout the City.

2000 Various Improvement

The Various Improvement general obligation bonds are serial bonds. The bonds maturing on or after December 1, 2010, are subject to early redemption, at the sole option of the City, either in whole on any date or in part on any interest payment date, on or after December 1, 2010, in multiples of \$5,000, at the following redemption prices plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
December 1, 2010 through November 30, 2011	101 percent
December 1, 2011 and thereafter	100 percent

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Special Assessment Bonds

The special assessment bonds are backed by the full faith and credit of the City of Marysville. In the event that an assessed property owner fails to make payments or insufficient amounts are assessed to fund the debt, the City will be required to pay the related debt.

Compensated Absences Payable

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, Street Construction and Repair special revenue fund, and the Sanitation, Sewer, and Water enterprise funds.

Capital Leases Payable

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

Business-Type Activities General Obligation Bonds

The general obligation bonds are liabilities of the Sewer and Water enterprise funds and pledge their respective revenues for repayment. The bonds also pledge the full faith and credit and taxing ability of the City in the event that enterprise funds' revenues are not sufficient to meet the principal and interest requirements.

1992 Sewer System Improvement

The Sewer System Improvement general obligation bonds include serial and term bonds. The term bonds have annual mandatory sinking fund redemption requirements and there are optional redemption provisions for the serial bonds. The term bonds mature on December 1, 2002, through December 1, 2011, in the amount of \$920,000, at a redemption price equal to 100 percent of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after December 1, 2002, are subject to early redemption, at the sole option of the City, either in whole on any date or in part on any interest payment date, on or after December 1, 2001, in multiples of \$5,000, at the following redemption prices plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
December 1, 2001 through November 30, 2002	101 percent
December 1, 2002 and thereafter	100 percent

1994 Various Improvement

The Various Improvement general obligation bonds include serial and term bonds. The term bonds have annual mandatory sinking fund redemption requirements and there are optional redemption provisions for the serial bonds. The term bonds mature on December 1, 2007, through December 1, 2013, in the amount of \$2,185,000, at a redemption price equal to 100 percent of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after December 1, 2003, are subject to early redemption, at the sole option of the City, either in whole on any date or in part on any interest payment date, on or after December 1, 2003, in multiples of \$5,000, at the following redemption prices plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
December 1, 2003 through November 30, 2004	101 percent
December 1, 2004 and thereafter	100 percent

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Mortgage Revenue Bonds

Mortgage revenue bonds are special obligations of the City secured by a mortgage upon all assets of the respective system. These bonds are payable solely from the gross revenues of the sewer and water systems after provisions for reasonable operating and maintenance expenses. The bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for services to customers be in sufficient amounts to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemptions of principal, and maintenance of properties.

Fund assets, whose use are restricted under bond indentures, are presented as restricted assets on the statement of net assets.

Restricted Assets Held by City	
Sewer Replacement and Improvement	\$2,206,727
Sewer Reserve	37,107
Water Replacement and Improvement	2,038,387

1988 Sewer System First Mortgage Revenue Bonds

The Sewer System First Mortgage Revenue mortgage revenue bonds are term bonds which have annual mandatory sinking fund redemption requirements. The bonds mature February 15, 2001 through February 15, 2008, in the amount of \$590,000, at a redemption price equal to 100 percent of the principal plus accrued interest to the redemption date.

Fund assets, whose use are restricted under the bond indenture, are presented as restricted assets on the statement of net assets. Restricted assets relating to the sewer mortgage revenue bonds at December 31, 2003, were as follows:

Restricted Assets Held by the Trustee	
Mortgage Revenue Bond Current Debt Service	\$69,327
Mortgage Revenue Bond Future Debt Service	101,579
Mortgage Revenue Bond Replacement and Improvement	608,928

2002 Water System Mortgage Revenue Bonds

The Water System Mortgage Revenue Bonds are term bonds which have annual mandatory sinking fund redemption requirements. The bonds mature December 1, 2003 through December 1, 2022, in the amount of \$3,820,000, at a redemption price equal to 100 percent of the principal plus accrued interest to the redemption date.

Fund assets, whose use are restricted under the bond indenture, are presented as restricted assets on the statement of net assets. Restricted assets relating to the water mortgage revenue bonds at December 31, 2003, were as follows:

Restricted Assets Held by the Trustee	
Mortgage Revenue Bond Current Debt Service	\$1
Mortgage Revenue Bond Fund	38
Mortgage Revenue Bond Reserve Fund	585,146

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Mortgage Revenue Bonds (continued)

2003 Water System Mortgage Revenue Refunding Bonds

The Water System Mortgage Revenue Refunding mortgage revenue bonds are term bonds which have annual mandatory sinking fund redemption requirements. The term bonds mature on December 1, 2004 through December 1, 2021, in the amount of \$9,155,000, at a redemption price equal to 100 percent of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after December 1, 2013, are subject to early redemption, at the sole option of the City, either in whole on any date or in part on any interest payment date, on or after December 1, 2013, in multiples of \$5,000, at a redemption price equal to 100 percent of the principal plus accrued interest:

The City's overall legal debt margin was \$26,143,566 at December 31, 2003.

Principal and interest requirements to retire general obligation bonds, special assessment bonds, and mortgage revenue bonds at December 31, 2003, were as follows:

Year	Governmental Activities				Business-Type Activities			
	General Obligation Bonds				General Obligation Bonds			
	1986 Building Improvement		2000 Various Improvement		1992 Sewer System Improvement		1994 Various Improvement	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$30,000	\$6,638	\$350,000	\$467,280	\$75,000	\$56,128	\$225,000	\$158,127
2005	30,000	4,425	370,000	449,780	80,000	50,765	240,000	146,878
2006	30,000	2,213	385,000	431,280	85,000	45,045	250,000	134,517
2007	0	0	405,000	412,030	95,000	38,967	265,000	121,268
2008	0	0	425,000	391,780	100,000	32,175	280,000	106,560
2009-2013	0	0	2,465,000	1,618,400	350,000	51,123	1,640,000	282,773
2014-2018	0	0	3,165,000	926,025	0	0	0	0
2019-2020	0	0	1,510,000	123,390	0	0	0	0
Totals	<u>\$90,000</u>	<u>\$13,276</u>	<u>\$9,075,000</u>	<u>\$4,819,965</u>	<u>\$785,000</u>	<u>\$274,203</u>	<u>\$2,900,000</u>	<u>\$950,123</u>

Governmental Activities		
Special Assessment Bonds		
1995 Jordan Assessment		
Year	Principal	Interest
2004	\$5,000	\$650
2005	5,000	325
Totals	<u>\$10,000</u>	<u>\$975</u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Year	1988 Sewer System First Mortgage Revenue		2003 Water System Mortgage Revenue Refunding		2002 Water System Mortgage Revenue	
	Principal	Interest	Principal	Interest	Principal	Interest
	2004	\$70,000	\$32,185	\$350,000	\$376,299	\$130,000
2005	75,000	26,690	400,000	326,664	135,000	167,155
2006	80,000	20,803	410,000	318,664	140,000	162,565
2007	90,000	14,552	420,000	310,462	145,000	157,385
2008	95,000	7,458	425,000	301,644	150,000	151,585
2009-2013	0	0	2,325,000	1,318,367	855,000	654,950
2014-2018	0	0	2,825,000	813,428	1,075,000	434,848
2019-2022	0	0	2,000,000	179,211	1,065,000	138,725
Totals	<u>\$410,000</u>	<u>\$101,688</u>	<u>\$9,155,000</u>	<u>\$3,944,739</u>	<u>\$3,695,000</u>	<u>\$2,038,203</u>

The above amortization schedule for the 2003 Water System Mortgage Revenue Refunding Bonds does not agree to the bonds payable amount on page 45 because it does not include the \$107,114 in unamortized premium on the 2003 bond issue.

NOTE 20 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Capital Outlay" and "Inception of Capital Lease" in the funds making the lease payments. Capital lease payments are reflected as debt service expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the governmental funds. Capital lease payments are reflected as a reduction of the liability for the enterprise funds. Assets, consisting of equipment, have been capitalized, in the amount of \$147,422 in the governmental funds and \$9,503 in the enterprise funds. These amounts represent the present value of the minimum lease payments at the time of acquisition. Principal payments in 2003 were \$23,409 and \$1,129, in governmental and enterprise funds, respectively.

	Governmental Activities	Business-Type Activities
Property under Capital Lease	\$147,422	\$9,503
Less Accumulated Depreciation	(64,372)	(9,074)
Total December 31, 2003	<u>\$83,050</u>	<u>\$429</u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 20 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2003.

Year	Governmental Activities	Business-Type Activities
2004	\$28,889	\$461
2005	21,912	0
2006	20,930	0
2007	13,047	0
2008	4,181	0
Total	88,959	461
Less Amount Representing Interest	(3,330)	(5)
Present Value of Net Minimum Lease Payments	\$85,629	\$456

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS

Marysville/Union County Joint Recreation District

The Marysville/Union County Joint Recreation District (the District) is a jointly governed organization involving the City of Marysville, Union County, and Paris Township. The District was established for acquiring, developing, operating, and maintaining a sports complex and bicycle/walking trail in Union County. The District's Board of Trustees consists of seven members, three appointed by the Mayor of Marysville, three appointed by the County Commissioners, and one appointed by the Paris Township Board of Trustees.

Union County Community Improvement Corporation

The Union County Community Improvement Corporation (the Corporation), a non-profit corporation, was established to assist in the financing of economic and industrial development in Union County. It is the responsibility of the Corporation to provide building, zoning, and land controls for the County, townships, and municipal corporations. The Board of Trustees consists of not less than three nor more than twenty-five trustees as such number is fixed by the members from time to time. Two-fifths of the Board of Trustees are composed of appointed or elected officers of such political divisions. The Corporation can issue its own debt and is not fiscally dependent on the City. The City of Marysville does not have an on going financial interest and/or responsibility with this organization.

NOTE 22 - CONTINGENT LIABILITIES

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

For the period January 1, 2003 to December 31, 2003, the City received state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 23 - SUBSEQUENT EVENTS

On March 11, 2004, the City issued general obligation notes, in the amount of \$720,000, to retire notes previously issued, in the amount of \$835,000, for motor vehicle purchases, equipment, and a pumper truck. The notes have an interest rate of 1.47 percent and mature on March 9, 2005.

On May 20, 2004, the City issued general obligation notes, in the amount of \$1,000,000 to conduct a street maintenance and repair program on various city streets. The notes have an interest rate of 2.0 percent and mature on March 9, 2005.

On September 17, 2004, the City issued tax incremental financing (TIF) notes in the amount of \$6,800,000 to be amortized from the TIF revenue received in the TIF fund. The notes were issued with an interest rate of 2.75% and a final maturity date of September 14, 2005.

On November 10, 2004, the City issued notes in the amount of \$6,369,000 at an interest rate of 3% to mature on June 1, 2005. These notes were a rollover of the \$6,494,000 2002 Sewer System Notes.

On December 9, 2004, the City issued general obligation sewer notes in the amount of \$7,000,000 at an interest rate of 3%. Final maturity for these notes is August 25, 2005.

BALESTRA, HARR & SCHERER, CPAs, Inc.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

City of Marysville
Union County, Ohio
125 East Sixth Street
Marysville, Ohio 43040

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the basic financial statements of the City of Marysville, Union County, Ohio, (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated December 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, and noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated December 16, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the City in a separate letter dated December 16, 2004.

City of Marysville
Report on Compliance and On Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
With *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management and the City Council, and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.
Balestra, Harr & Scherer, CPAs, Inc.
December 16, 2004

City of Marysville
Union County, Ohio

Schedule of Prior Audit Findings
For the Year Ending December 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Difference Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	Certification of Expenditures	Yes	Fully Corrected.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**CITY OF MARYSVILLE
UNION COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 24, 2005**