

City of Marysville

Union County

Regular Audit

January 1, 2004 through December 31, 2004

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 Council
City of Marysville
125 East Sixth Street
Marysville, Ohio 43040

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, 2004 through December 31, 2004. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 22, 2005

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City of Marysville
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

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

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, (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the general fund of 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 June 27, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 consisted 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.
June 27, 2005

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2004

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, 2004. 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 2004 are as follows:

- In total, net assets increased \$4,687,935. Net assets of governmental activities increased \$215,996, which represents a 0.76% increase from 2003. Net assets of business-type activities increased \$4,471,939 or 18.72% from 2003.
- Total assets of governmental activities increased \$7,747,639, which represents an 18.66% increase from 2003. Total liabilities of governmental activities increased \$7,531,643, or 58.09%. Both increases are attributable to increases in debt for economic development and street infrastructure improvements.
- Total assets of business-type activities increased \$10,094,847, which represents a 20.88% increase from 2003. Total liabilities of business-type activities increased \$5,622,908, or 22.98%. Both increases are attributable primarily to increases in debt for the purchase of land and engineering work for construction of a new sanitary sewer plant and transmission lines from the existing plant.
- In total, cash and cash equivalents increased \$13,350,110 or 102.81%. Total cash and cash equivalents of governmental activities increased \$3,106,625 or 77.71%, while cash and cash equivalents in business-type activities increased \$10,243,485 or 113.97%.
- Overall the book value of capital assets increased by \$3,561,426. Total capital assets from governmental activities increased by \$3,750,220 or 11.23%. This increase is primarily due to the construction in progress of the Coleman's Crossing project. Capital assets from business-type activities decreased by \$188,794 or 0.50%. This decrease was a result of depreciation costs exceeding capital asset additions.
- On an accrual basis, City income tax revenue increased \$517,113 or 8.28%.

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.

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 2004?" 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 the 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, storm water utility 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, leaf and brush removal and also a fee to provide for improvements to the City's stormwater removal system.

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 Coleman's Crossing TIF Project Fund, and the 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, 2004

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 2004 and 2003.

	Net Assets (In Thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003*	2004	2003
Assets						
Current and Other Assets	\$12,138.8	\$8,141.4	\$20,584.6	\$10,301.0	\$32,723.4	\$18,442.4
Capital Assets, Net	37,131.4	33,381.2	37,865.5	38,054.3	74,996.9	71,435.5
Total Assets	49,270.2	41,522.6	58,450.1	48,355.3	107,720.3	89,877.9
Liabilities						
Current and Other Liabilities	2,427.0	2,306.3	13,944.8	7,290.6	16,371.8	9,596.9
Long-Term Liabilities						
Due within One Year	9,490.0	1,690.4	1,017.1	947.3	10,507.1	2,637.7
Due in More Than One Year	8,580.3	8,969.0	15,125.2	16,226.3	23,705.5	25,195.3
Total Liabilities	20,497.3	12,965.7	30,087.1	24,464.2	50,584.4	37,429.9
Net Assets						
Invested in Capital Assets Net of Related Debt	22,294.0	23,285.6	8,511.7	14,250.6	30,805.7	37,536.2
Restricted for:						
Capital Projects	1,745.7	250.2	0.0	0.0	1,745.7	250.2
Debt Service	204.8	284.4	0.0	0.0	204.8	284.4
Other Purposes	2,995.4	1,679.0	0.0	0.0	2,995.4	1,679.0
Sewer Reserve	0.0	0.0	0.0	37.1	0.0	37.1
Sewer Replacement and Improvement	0.0	0.0	10,648.7	2,206.7	10,648.7	2,206.7
Water Replacement and Improvement	0.0	0.0	2,791.0	2,038.4	2,791.0	2,038.4
Future Debt	0.0	0.0	0.0	709.9	0.0	709.9
Unrestricted	1,533.0	3,057.7	6,411.6	4,648.4	7,944.6	7,706.1
Total Net Assets	\$28,772.9	\$28,556.9	\$28,363.0	\$23,891.1	\$57,135.9	\$52,448.0

*Restated – see notes to the basic financial statements.

Total governmental activities assets increased \$7,747,639. Equity in pooled cash and cash equivalents for governmental activities increased \$3,106,625. This increase is due primarily to increases in income tax revenues, inspection fee revenues, debt issuance for economic development and street improvements, and strict expenditure control.

Total assets of the City's business-type activities increased significantly (\$10,094,847) with increased growth and development, debt issuance for sewer improvements, and capacity fee increases enacted during 2003. The large increase was primarily in cash and cash equivalents (\$10,243,485) while the City saw a decrease in capital assets (\$188,794) 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, 2004.

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Changes in Net Assets
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003*	2004	2003
Revenues						
Program Revenues						
Charges for Services	\$1,840.3	\$1,681.5	\$12,465.2	\$11,407.7	\$14,305.5	\$13,089.2
Operating Grants, Contributions, and Interest	1,305.0	867.6	0.0	0.0	1,305.0	867.6
Capital Grants and Contributions	0.0	0.0	0.0	99.4	0.0	99.4
General Revenues						
Property Taxes	1,501.4	1,373.3	0.0	0.0	1,501.4	1,373.3
Municipal Income Taxes	6,762.4	6,245.3	0.0	0.0	6,762.4	6,245.3
Grants and Entitlements	683.5	1,061.2	0.0	0.0	683.5	1,061.2
Other	576.1	817.9	70.8	195.0	646.9	1,012.9
Total Revenues	<u>12,668.7</u>	<u>12,046.8</u>	<u>12,536.0</u>	<u>11,702.1</u>	<u>25,204.7</u>	<u>23,748.9</u>
Program Expenses						
General Government	1,998.3	1,850.3	0.0	0.0	1,998.3	1,850.3
Security of Persons and Property						
Police	2,763.6	2,716.8	0.0	0.0	2,763.6	2,716.8
Fire	2,812.8	2,711.3	0.0	0.0	2,812.8	2,711.3
Other	572.3	558.3	0.0	0.0	572.3	558.3
Public Health Services	370.2	317.3	0.0	0.0	370.2	317.3
Leisure Time Activities	290.6	316.9	0.0	0.0	290.6	316.9
Transportation	2,301.5	2,282.6	0.0	0.0	2,301.5	2,282.6
Community Environment	792.2	470.9	0.0	0.0	792.2	470.9
Interest and Fiscal Charges	551.2	511.6	0.0	0.0	551.2	511.6
Sanitation	0.0	0.0	938.3	865.2	938.3	865.2
Sewer	0.0	0.0	3,804.4	3,328.3	3,804.4	3,328.3
Water	0.0	0.0	3,300.8	3,824.0	3,300.8	3,824.0
Stormwater	0.0	0.0	20.6	0.0	20.6	0.0
Total Expenses	<u>12,452.7</u>	<u>11,736.0</u>	<u>8,064.1</u>	<u>8,017.5</u>	<u>20,516.8</u>	<u>19,753.5</u>
Increase (Decrease) in Net Assets	<u>\$216.0</u>	<u>\$310.8</u>	<u>\$4,471.9</u>	<u>\$3,684.6</u>	<u>\$4,687.9</u>	<u>\$3,995.4</u>

*Restated – see notes to the basic financial statements.

Governmental Activities

Several revenue sources fund governmental activities, with income taxes generally being the biggest contributor. The income tax rate of 1.00% was enacted in 1968. The income tax revenue for 2004 (accrual basis) was approximately \$6.76 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 94.95% of all general revenues in the governmental activities, the City monitors each of these revenue sources very closely for fluctuations.

The City has historically experienced an increase in income tax collections of approximately 8.00% per year (cash receipts). This is the third year accrual numbers are available for comparison and reflect an increase of 8.28%. Through December 31, 2004, the City contracted for income tax collections with the Regional Income Tax Agency (RITA) for administration and collection of the municipal income tax. Effective January 1, 2005, the City has returned the income tax administration and collection in-house.

Security of persons and property, general government, transportation, and water and sewer services are the major activities of the City, generating 85.56% of total expenses.

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, water, and stormwater 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 wastewater treatment plant generated operating revenues of \$5,937,843 and had operating expenses of \$3,580,537. The water plant generated operating revenues of \$5,242,354 and had operating expenses of \$2,562,900. The City's goal is to cover the costs of operations as well as build a cash balance in these funds equivalent to one-third of the department's annual operating budget. The City is also generating funds for additional capital expansion to ensure continued capacity and capacity improvements for future growth and development.

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 \$12,791,843 and expenditures of \$17,422,765.

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 2004, 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 \$11,566,156 and final budgeted revenues were \$11,636,549. Original budgeted expenditures were \$11,627,220 and final budgeted expenditures were \$12,015,041. Actual ending fund balance was \$454,083 over final budget amounts.

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Capital Assets and Debt Administration

Capital Assets

Capital Assets at December 31, 2004
(Net of Depreciation, in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$1,084.7	\$1,084.7	\$1,668.5	\$1,668.5	\$2,753.2	\$2,753.2
Buildings	1,876.8	1,955.0	5,995.9	6,232.8	7,872.7	8,187.8
Improvements Other than Buildings	1,157.1	1,124.9	1,066.2	449.7	2,223.3	1,574.6
Computers and Computer Equipment	73.2	44.0	88.7	92.6	161.9	136.6
Furniture and Equipment	482.8	510.0	202.7	217.7	685.5	727.7
Vehicles	532.4	639.2	522.6	309.4	1,055.0	948.6
Infrastructure						
Bridges	234.3	238.2	0.0	0.0	234.3	238.2
Roads	22,705.9	23,913.5	0.0	0.0	22,705.9	23,913.5
Storm Sewer	2,354.5	2,427.8	0.0	0.0	2,354.5	2,427.8
Other	1,374.7	1,410.5	27,626.3	28,310.5	29,001.0	29,721.0
Construction in Progress	5,255.0	33.4	694.6	773.1	5,949.6	806.5
Totals	\$37,131.4	\$33,381.2	\$37,865.5	\$38,054.3	\$74,996.9	\$71,435.5

The increase noted in governmental funds was due primarily to construction projects tied to economic development. The City established several Tax Incremental Financing districts during 2004 to generate economic development and provide a mechanism for infrastructure improvement. The slight decrease seen in the business-type activities was due primarily to depreciation costs for infrastructure assets.

See Note 10 for additional information on the City's capital assets.

Debt

At December 31, 2004, the City of Marysville had approximately \$47.61 million in bonds, notes, and compensated absences outstanding, \$23.90 million due within one year.

Outstanding Debt at December 31, 2004
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Notes	\$8,567.9	\$835.0	\$13,396.3	\$6,804.0	\$21,964.2	\$7,639.0
General Obligation Bonds	8,785.0	9,165.0	3,488.1	3,685.0	12,273.1	12,850.0
Special Assessment Bonds	5.0	10.0	0.0	0.0	5.0	10.0
Mortgage Revenue Bonds	0.0	0.0	12,457.2	13,314.2	12,457.2	13,314.2
Compensated Absences and Capital Leases	712.4	649.4	197.0	174.4	909.4	823.8
Total	\$18,070.3	\$10,659.4	\$29,538.6	\$23,977.6	\$47,608.9	\$34,637.0

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 2005.

The City's overall legal debt margin was \$19,775,450 at December 31, 2004.

See Notes 17 and 18 for additional information about the City's debt.

The Future

The City of Marysville continues to work 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. The City has continued to grow rapidly since 2000 with approximately 250 new homes constructed annually and several new commercial facilities opened in 2004 with more planned for 2005.

The City has made a commitment not to borrow additional monies for assets with a short useful life. As funding becomes available the City hopes to replace the fire station with a new facility and refurbish the existing building to house other City departments.

The City has worked 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. 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, 2004

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$7,104,124	\$18,808,962	\$25,913,086
Cash and Cash Equivalents with Fiscal Agent	0	422,217	422,217
Property Taxes Receivable	1,594,496	0	1,594,496
Municipal Income Taxes Receivable	1,935,840	0	1,935,840
Accounts Receivable	210,762	987,123	1,197,885
Special Assessments Receivable	309,751	0	309,751
Interest Receivable	25,175	0	25,175
Due from Other Governments	901,427	261,045	1,162,472
Prepaid Items	57,230	105,298	162,528
Land	1,084,725	1,668,500	2,753,225
Construction in Progress	5,255,042	694,550	5,949,592
Depreciable Capital Assets, Net	30,791,672	35,502,418	66,294,090
Total Assets	49,270,244	58,450,113	107,720,357
<u>Liabilities</u>			
Accrued Wages Payable	90,619	22,165	112,784
Accounts Payable	246,580	283,267	529,847
Contracts Payable	19,190	73,702	92,892
Due to Other Governments	384,715	82,533	467,248
Accrued Interest Payable	134,920	86,826	221,746
Notes Payable	0	13,396,260	13,396,260
Retainage Payable	13,599	0	13,599
Deferred Revenue	1,537,329	0	1,537,329
Long-Term Liabilities:			
Due Within One Year	9,490,042	1,017,111	10,507,153
Due in More than One Year	8,580,343	15,125,244	23,705,587
Total Liabilities	20,497,337	30,087,108	50,584,445
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	22,293,967	8,511,737	30,805,704
Restricted for:			
Capital Projects	1,745,727	0	1,745,727
Debt Service	204,813	0	204,813
Other Purposes	2,995,385	0	2,995,385
Sewer Replacement and Improvement	0	10,648,694	10,648,694
Water Replacement and Improvement	0	2,790,941	2,790,941
Unrestricted	1,533,015	6,411,633	7,944,648
Total Net Assets	\$28,772,907	\$28,363,005	\$57,135,912

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues				Net (Expense) Revenue and Change in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
General Government	\$1,998,307	\$192,281	\$56,250	\$0	(\$1,749,776)	\$0	(\$1,749,776)
Security of Persons and Property:							
Police	2,763,604	158,892	166,870	0	(2,437,842)	0	(2,437,842)
Fire	2,812,770	656,839	55,222	0	(2,100,709)	0	(2,100,709)
Other	572,266	548,426	63,890	0	40,050	0	40,050
Public Health Services	370,217	64,024	0	0	(306,193)	0	(306,193)
Leisure Time Activities	290,630	219,801	25,500	0	(45,329)	0	(45,329)
Transportation	2,301,526	0	804,638	0	(1,496,888)	0	(1,496,888)
Community Environment	792,174	0	132,606	0	(659,568)	0	(659,568)
Interest and Fiscal Charges	551,204	0	0	0	(551,204)	0	(551,204)
Total Governmental Activities	12,452,698	1,840,263	1,304,976	0	(9,307,459)	0	(9,307,459)
Business-Type Activities							
Sanitation	938,280	995,278	0	0	0	56,998	56,998
Sewer	3,804,403	5,936,165	0	0	0	2,131,762	2,131,762
Water	3,300,814	5,177,186	0	0	0	1,876,372	1,876,372
Stormwater Assessment	20,596	356,595	0	0	0	335,999	335,999
Total Business-Type Activities	8,064,093	12,465,224	0	0	0	4,401,131	4,401,131
Total	\$20,516,791	\$14,305,487	\$1,304,976	\$0	(9,307,459)	4,401,131	(4,906,328)
General Revenues							
Property Taxes					1,501,443	0	1,501,443
Other Local Taxes					95,545	0	95,545
Municipal Income Taxes					6,762,402	0	6,762,402
Grants and Entitlements not Restricted to Specific Programs					683,543	0	683,543
Interest					170,432	3,712	174,144
Contributions and Donations					26,655	0	26,655
Other Revenues					283,435	67,096	350,531
Total General Revenues					9,523,455	70,808	9,594,263
Change in Net Assets					215,996	4,471,939	4,687,935
Net Assets Beginning of Year (Restated - See Note 3)					28,556,911	23,891,066	52,447,977
Net Assets End of Year					\$28,772,907	\$28,363,005	\$57,135,912

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Balance Sheet
Governmental Funds
December 31, 2004

	General Fund	Coleman's Crossing TIF Project Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$2,689,980	\$1,592,898	\$2,821,246	\$7,104,124
Receivables:				
Property Taxes	1,381,586	0	212,910	1,594,496
Municipal Income Taxes	1,935,840	0	0	1,935,840
Accounts	101,968	88	108,706	210,762
Special Assessments	0	0	309,751	309,751
Interest	24,190	0	985	25,175
Due from Other Governments	452,023	0	449,404	901,427
Prepaid Items	56,618	0	612	57,230
Total Assets	\$6,642,205	\$1,592,986	\$3,903,614	\$12,138,805
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts Payable	\$135,268	\$40,279	\$71,033	\$246,580
Contracts Payable	398	8,149	10,643	19,190
Retainage Payable	0	0	13,599	13,599
Accrued Wages Payable	83,390	0	7,229	90,619
Due to Other Governments	25,839	0	1,698	27,537
Deferred Revenue	2,097,222	0	773,130	2,870,352
Total Liabilities	2,342,117	48,428	877,332	3,267,877
<u>Fund Balance</u>				
Reserved for Encumbrances	266,330	1,496,530	1,081,532	2,844,392
Unreserved, Reported in:				
General Fund	4,033,758	0	0	4,033,758
Special Revenue Funds	0	0	1,730,387	1,730,387
Debt Service Fund	0	0	29,424	29,424
Capital Projects Funds	0	48,028	184,939	232,967
Total Fund Balance	4,300,088	1,544,558	3,026,282	8,870,928
Total Liabilities and Fund Balance	\$6,642,205	\$1,592,986	\$3,903,614	\$12,138,805

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, 2004*

Total Governmental Fund Balance		\$8,870,928
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		37,131,439
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:		
Property Taxes	68,009	
Municipal Income Taxes	324,186	
Special Assessments	309,751	
Fees, Licenses, and Permits	41,036	
Misc. Revenue	1,017	
Intergovernmental	589,024	
Total		1,333,023
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		(357,178)
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	(134,920)	
Notes Payable	(8,567,931)	
Compensated Absences Payable	(640,015)	
Capital Leases Payable	(72,439)	
Special Assessment Bonds Payable	(5,000)	
General Obligation Bonds Payable	(8,785,000)	
Total		(18,205,305)
Net Assets of Governmental Activities		\$28,772,907

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General Fund	Coleman's Crossing TIF Project Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$1,276,755	\$0	\$195,227	\$1,471,982
Other Local Taxes	95,545	0	0	95,545
Municipal Income Taxes	6,957,170	0	0	6,957,170
Special Assessments	0	0	27,659	27,659
Charges for Services	735,125	0	333,431	1,068,556
Fees, Licenses, and Permits	478,127	0	104,574	582,701
Fines and Forfeitures	298,329	0	137,139	435,468
Intergovernmental	924,690	0	953,499	1,878,189
Interest	161,160	0	9,272	170,432
Contributions and Donations	26,655	0	25,500	52,155
Other Revenues	49,836	97	2,053	51,986
Total Revenues	11,003,392	97	1,788,354	12,791,843
<u>Expenditures</u>				
Current:				
General Government	1,781,739	0	36,329	1,818,068
Security of Persons and Property:				
Police	2,580,725	0	172,617	2,753,342
Fire	2,292,442	0	429,345	2,721,787
Other	522,322	0	46,855	569,177
Leisure Time Activities	226,121	0	9,829	235,950
Transportation	0	0	918,939	918,939
Public Health Services	353,082	0	0	353,082
Community Environment	577,042	8,149	153,802	738,993
Capital Outlay	112,573	5,295,321	161,663	5,569,557
Debt Service:				
Principal Retirement	28,576	0	1,220,058	1,248,634
Interest and Fiscal Charges	3,156	0	492,080	495,236
Total Expenditures	8,477,778	5,303,470	3,641,517	17,422,765
Excess of Revenues Over (Under) Expenditures	2,525,614	(5,303,373)	(1,853,163)	(4,630,922)
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued	0	6,847,931	1,720,000	8,567,931
Proceeds from Sale of Fixed Assets	2,365	0	275	2,640
Inception of Capital Lease	15,444	0	0	15,444
Transfers In	0	0	1,338,823	1,338,823
Transfers Out	(1,338,823)	0	0	(1,338,823)
Total Other Financing Sources (Uses)	(1,321,014)	6,847,931	3,059,098	8,586,015
Net Change in Fund Balance	1,204,600	1,544,558	1,205,935	3,955,093
Fund Balance Beginning of Year	3,095,488	0	1,820,347	4,915,835
Fund Balance End of Year	<u>\$4,300,088</u>	<u>\$1,544,558</u>	<u>\$3,026,282</u>	<u>\$8,870,928</u>

See Accompanying Notes to the Basic Financial Statements

City of Marysville
*Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement of Activities
For the Year Ended December 31, 2004*

Net Change in Fund Balance - Total Governmental Funds	\$3,955,093
Amounts reported for governmental activities in the statement of activities are different due to:	
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 capital outlay exceeded depreciation expense in the current period.	
	3,785,926
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on disposal of assets:	
Loss on Disposal of Assets	(33,066)
Inception of capital leases are recorded as other financing sources in the governmental funds, but are recorded as an increase of long term obligations, so it is not recorded in the statement of activities.	
	(15,444)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Intergovernmental Receivable	95,534
Municipal Income Taxes Receivable	(194,768)
Property Taxes Receivable	40,303
Fees, Licenses & Permits	2,332
Miscellaneous Revenue	1,017
Charges for Services	(25,103)
Transportation Expense	3,353
Special Assessments Receivable	(27,659)
	(104,991)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of activities.	
	1,248,634
Note proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities in the statement of activities.	
	(8,567,940)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
	(69,683)
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.	
Compensated Absences Payable	(76,246)
Intergovernmental Payables	93,713
	<hr/>
Change in Net Assets of Governmental Activities	<u><u>\$215,996</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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$1,509,861	\$1,509,861	\$1,276,755	(\$233,106)
Other Local Taxes	75,000	75,000	87,139	12,139
Municipal Income Taxes	6,251,000	6,251,000	6,298,060	47,060
Charges for Services	1,969,942	1,969,942	1,558,177	(411,765)
Fees, Licenses, and Permits	314,000	314,000	410,541	96,541
Fines and Forfeitures	414,776	414,776	322,477	(92,299)
Intergovernmental	876,077	927,002	1,008,316	81,314
Interest	100,500	100,500	146,059	45,559
Contributions and Donations	8,000	27,468	26,655	(813)
Other Revenues	47,000	47,000	35,379	(11,621)
Total Revenues	11,566,156	11,636,549	11,169,558	(466,991)
<u>Expenditures</u>				
Current:				
General Government	3,434,248	3,628,856	3,298,613	330,243
Security of Persons and Property:				
Police	2,617,005	2,624,556	2,438,640	185,916
Fire	2,466,195	2,567,284	2,475,894	91,390
Other	509,733	509,733	465,861	43,872
Leisure Time Activities	259,698	256,121	230,292	25,829
Community Environment	522,955	540,155	486,064	54,091
Public Health Services	306,100	377,050	362,145	14,905
Total Expenditures	10,115,934	10,503,755	9,757,509	746,246
Excess of Revenues Over Expenditures	1,450,222	1,132,794	1,412,049	279,255
<u>Other Financing Sources (Uses)</u>				
Proceeds on Sale of Fixed Assets	0	0	2,365	2,365
Transfers Out	(1,511,286)	(1,511,286)	(1,338,823)	172,463
Total Other Financing Sources (Uses)	(1,511,286)	(1,511,286)	(1,336,458)	174,828
Net Change in Fund Balance	(61,064)	(378,492)	75,591	454,083
Fund Balance Beginning of Year	2,125,726	2,125,726	2,125,726	0
Prior Year Encumbrances Appropriated	144,264	144,264	144,264	0
Fund Balance End of Year	\$2,208,926	\$1,891,498	\$2,345,581	\$454,083

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Net Assets
Enterprise Funds
December 31, 2004

	Sewer	Water	Other Enterprise Funds	Total
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$3,016,230	\$1,865,611	\$487,486	\$5,369,327
Accounts Receivable	481,932	388,368	116,823	987,123
Due from Other Governments	125,710	135,335	0	261,045
Prepaid Items	59,323	44,490	1,485	105,298
Total Current Assets	3,683,195	2,433,804	605,794	6,722,793
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	10,648,694	2,790,941	0	13,439,635
Cash and Cash Equivalents with Fiscal Agents	0	422,217	0	422,217
Total Restricted Assets	10,648,694	3,213,158	0	13,861,852
<u>Non-Current Assets</u>				
Land	6,000	1,662,500	0	1,668,500
Construction in Progress	0	694,550	0	694,550
Depreciable Capital Assets, Net	17,367,308	17,971,792	163,318	35,502,418
Total Non-Current Assets	17,373,308	20,328,842	163,318	37,865,468
Total Assets	31,705,197	25,975,804	769,112	58,450,113
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accrued Wages Payable	12,100	7,891	2,174	22,165
Accounts Payable	135,133	92,003	56,131	283,267
Contracts Payable	41,019	32,683	0	73,702
Due to Other Governments	37,139	35,925	9,469	82,533
Accrued Interest Payable	59,965	26,861	0	86,826
Notes Payable	13,396,260	0	0	13,396,260
Capital Leases Payable	2,329	336	0	2,665
Compensated Absences Payable	46,850	52,038	8,342	107,230
General Obligation Bonds Payable	159,563	215,437	0	375,000
Mortgage Revenue Bonds Payable	0	109,999	0	109,999
Payable from Restricted Assets:				
Mortgage Revenue Bonds Payable	0	422,217	0	422,217
Total Current Liabilities	13,890,358	995,390	76,116	14,961,864
<u>Non-Current Liabilities</u>				
Capital Leases Payable	8,263	1,181	0	9,444
Compensated Absences Payable	22,507	53,714	1,433	77,654
General Obligation Bonds Payable	1,315,770	1,797,383	0	3,113,153
Mortgage Revenue Bonds Payable	0	11,924,993	0	11,924,993
Total Non-Current Liabilities	1,346,540	13,777,271	1,433	15,125,244
Total Liabilities	15,236,898	14,772,661	77,549	30,087,108
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	9,497,493	5,857,296	163,318	15,518,107
Restricted for:				
Sewer Replacement and Improvement	10,648,694	0	0	10,648,694
Water Replacement and Improvement	0	2,790,941	0	2,790,941
Unrestricted (Deficit)	(3,677,888)	2,554,906	528,245	(594,737)
Total Net Assets	\$16,468,299	\$11,203,143	\$691,563	\$28,363,005

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, 2004

	Sewer	Water	Other Enterprise Funds	Total
<u>Operating Revenues</u>				
Charges for Services	\$4,569,100	\$4,401,832	\$1,351,873	\$10,322,805
Tap-In Fees	1,367,065	775,354	0	2,142,419
Other Revenues	1,678	65,168	250	67,096
Total Operating Revenues	<u>5,937,843</u>	<u>5,242,354</u>	<u>1,352,123</u>	<u>12,532,320</u>
<u>Operating Expenses</u>				
Personal Services	954,763	826,986	215,815	1,997,564
Contractual Services	1,375,934	791,110	648,608	2,815,652
Materials and Supplies	391,677	243,018	43,797	678,492
Other Expenses	168,719	65,380	26,571	260,670
Depreciation	689,444	636,406	24,085	1,349,935
Total Operating Expenses	<u>3,580,537</u>	<u>2,562,900</u>	<u>958,876</u>	<u>7,102,313</u>
Operating Income	<u>2,357,306</u>	<u>2,679,454</u>	<u>393,247</u>	<u>5,430,007</u>
<u>Non-Operating Revenues (Expenses)</u>				
Interest Revenue	717	2,995	0	3,712
Interest Expense	(219,105)	(645,027)	0	(864,132)
Other Non-Operating Expenses	(4,761)	(92,887)	0	(97,648)
Total Non-Operating Revenues (Expenses)	<u>(223,149)</u>	<u>(734,919)</u>	<u>0</u>	<u>(958,068)</u>
Change in Net Assets	2,134,157	1,944,535	393,247	4,471,939
Net Assets Beginning of Year (Restated - See Note 3)	<u>14,334,142</u>	<u>9,258,608</u>	<u>298,316</u>	<u>23,891,066</u>
Net Assets End of Year	<u>\$16,468,299</u>	<u>\$11,203,143</u>	<u>\$691,563</u>	<u>\$28,363,005</u>

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2004

	Sewer	Water	Other Enterprise Funds	Total
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$5,941,326	\$5,156,584	\$1,305,343	\$12,403,253
Cash Received from Other Revenues	8,286	79,143	250	87,679
Cash Payments for Personal Services	(971,744)	(847,023)	(219,255)	(2,038,022)
Cash Payments to Suppliers	(1,742,424)	(961,554)	(699,914)	(3,403,892)
Cash Payments for Other Expenses	(168,719)	(65,380)	(26,571)	(260,670)
Net Cash Provided by Operating Activities	<u>3,066,725</u>	<u>3,361,770</u>	<u>359,853</u>	<u>6,788,348</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Other Expenses	(4,761)	(92,887)	0	(97,648)
Net Cash (Used for) Noncapital Financing Activities	<u>(4,761)</u>	<u>(92,887)</u>	<u>0</u>	<u>(97,648)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on General Obligation Bonds	(1,717,325)	(2,297,675)	0	(4,015,000)
Interest Paid on General Obligation Bonds	(73,840)	(86,310)	0	(160,150)
Principal Paid on Mortgage Revenue Bonds	(410,000)	(447,010)	0	(857,010)
Interest Paid on Mortgage Revenue Bonds	(16,810)	(562,663)	0	(579,473)
Principal Paid on Notes Payable	(6,804,000)	0	0	(6,804,000)
Interest Paid on Notes Payable	(81,684)	0	0	(81,684)
Principal Paid on Capital Leases	(1,806)	(475)	0	(2,281)
Interest Paid on Capital Leases	(1,273)	(57)	0	(1,330)
General Obligation Bonds Issued	1,624,658	2,193,495	0	3,818,153
Notes Issued	13,396,260	0	0	13,396,260
Acquisition of Fixed Assets	(370,634)	(736,278)	(57,500)	(1,164,412)
Net Cash Provided by/ (Used for) Capital and Related Financing Activities	<u>5,543,546</u>	<u>(1,936,973)</u>	<u>(57,500)</u>	<u>3,549,073</u>
<u>Cash Flows from Investing Activities</u>				
Interest	717	2,995	0	3,712
Net Cash Provided by Investing Activities	<u>717</u>	<u>2,995</u>	<u>0</u>	<u>3,712</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,606,227	1,334,905	302,353	10,243,485
Cash and Cash Equivalents Beginning of Year	<u>5,058,697</u>	<u>3,743,864</u>	<u>185,133</u>	<u>8,987,694</u>
Cash and Cash Equivalents End of Year	<u>\$13,664,924</u>	<u>\$5,078,769</u>	<u>\$487,486</u>	<u>\$19,231,179</u>
See Accompanying Notes to the Basic Financial Statements				(continued)

City of Marysville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2004

	Sewer	Water	Other Enterprise Funds	Total
<u>Reconciliation of Operating Income to Net</u>				
<u>Cash Provided by (Used for) Operating Activities</u>				
Operating Income	\$2,357,306	\$2,679,454	\$393,247	\$5,430,007
<u>Adjustments to Reconcile Operating Income (Loss) to Net</u>				
<u>Cash Provided by (Used for) Operating Activities</u>				
Depreciation	689,444	636,406	24,085	1,349,935
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	5,161	(20,602)	(46,530)	(61,971)
(Increase) Decrease in Due from Other Governments	6,608	13,975	0	20,583
(Increase) Decrease in Prepaid Items	2,664	(902)	(530)	1,232
Increase (Decrease) in Accounts Payable	5,219	40,793	(6,979)	39,033
Increase (Decrease) in Contracts Payable	23,949	32,683	0	56,632
Increase (Decrease) in Retainage Payable	(6,645)	0	0	(6,645)
Increase (Decrease) in Accrued Wages Payable	(17,965)	(19,481)	(3,619)	(41,065)
Increase (Decrease) in Due to Other Governments	(3,709)	(7,411)	819	(10,301)
Increase (Decrease) in Compensated Absences Payable	4,693	6,855	(640)	10,908
Net Cash Provided by Operating Activities	<u>\$3,066,725</u>	<u>\$3,361,770</u>	<u>\$359,853</u>	<u>\$6,788,348</u>

City of Marysville
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2004

	<u>Agency</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$6,801
Cash and Cash Equivalents in Segregated Accounts	<u>110,648</u>
Total Assets	<u><u>\$117,449</u></u>
 <u>Liabilities:</u>	
Undistributed Assets	<u><u>\$117,449</u></u>

See Accompanying Notes to the Basic Financial Statements

NOTE 1 - REPORTING ENTITY

The City of Marysville (the City) 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 2004.

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 20 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 after November 30, 1989, to its governmental and business-type activities and enterprise funds provided they do not conflict with or contradict GASB pronouncements.

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.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 Coleman's Crossing Tax Incremental Financing (TIF) Project 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.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Coleman's Crossing TIF Project Fund - The Coleman's Crossing TIF Project Fund is a capital improvement fund used to account for the debt proceeds and construction costs associated with the development of a commercial center known as Coleman's Crossing, located on the eastern side of the City.

The other governmental funds of the City account for grants and other resources whose uses are restricted for particular purposes.

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:

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.

In addition the City provides solid waste disposal service to residents and certain commercial users within the City. The City has also established a stormwater utility to provide resources for the improvement of the City's surface water drainage system. These utilities are accounted for in a Sanitation Fund and a Stormwater Assessment Fund.

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 2004. 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 balances 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: 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, 2004, but were levied to finance 2005 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 2004.

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 re-appropriated.

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, 2004.

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 2004 was \$161,160, which includes \$138,497 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, 2004, 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.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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

<u>Description</u>	<u>Governmental Activities 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, 2004.

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.

Restricted for other purposes represents balances of state and federal grants in Special Revenue funds.

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, water, and stormwater 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 2004.

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.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 3 – PRIOR PERIOD ADJUSTMENT

During 2003, a portion of the debt proceeds issued by the Water Fund were used to establish a bond payment account held by a trustee for the 2003 mortgage revenue bonds. This cash with trustee was not included on the financial statements of the City. Also, as part of the same transaction, debt issuance charges paid directly from the trustee accounts were not properly recorded in the financial statements of the City. The effect of these errors was to an overstatement of restricted cash and cash equivalents with fiscal agents as well as total net assets by \$195,420.

	As Reported	As Corrected
2003 Statement of Net Assets		
Assets		
Restricted Cash and Cash Equivalents with Fiscal Agent	\$1,365,019	\$1,169,599
Net Assets		
Net Assets Restricted for Future Debt	817,803	709,834
Net Assets Unrestricted	4,735,875	4,648,424
Total Net Assets	24,086,486	23,891,066

NOTE 4 - 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:

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	\$1,204,600
<u>Increases (Decreases) Due To</u>	
Revenue Accruals	166,166
Expenditure Accruals	(869,162)
Prepaid Items	(56,618)
Inception of Capital Lease	(15,444)
Encumbrances Outstanding	
At Year-End (Budget Basis)	(353,951)
Budget Basis	\$75,591

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.

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).

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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 \$1,453 in undeposited cash on hand which is included on the statement of net assets as part of "Equity in Pooled Cash and Cash Equivalents".

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 \$18,223,465 and the bank balance was \$18,418,608. Of the bank balance, \$430,388 was covered by federal depository insurance. The remaining balance of \$17,988,220 was collateralized with securities held in single financial institution collateral pools in the name of the respective depository bank and pledged as a pool of collateral against all of the public moneys it holds.

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	\$422,217	\$422,217
Federal Agency Securities	0	349,802	349,802	349,802
Certificates of Deposit	0	1,299,664	1,299,664	1,299,664
City of Marysville Bonds	5,000	0	5,000	5,000
STAR Ohio	0	0	6,151,151	6,151,151
Total	\$5,000	\$1,649,466	\$8,227,834	\$8,227,834

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$26,452,752	\$0
Cash on Hand	(1,453)	
Investments:		
Mutual Funds	(422,217)	422,217
Federal Agency Securities	(349,802)	349,802
Certificates of Deposit	(1,299,664)	1,299,664
City of Marysville Bonds	(5,000)	5,000
STAR Ohio	(6,151,151)	6,151,151
GASB Statement No. 3	\$18,223,465	\$8,227,834

NOTE 6 - 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 2004 represent the collection of 2003 taxes. For 2004, real property taxes were levied after October 1, 2003, on the assessed values as of January 1, 2004, the lien date. These taxes will be collected in and are intended to finance 2005 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 2004 were levied after October 1, 2004, on the assessed values as of December 31, 2003. These taxes will be collected in and are intended to finance 2005 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 2004 (other than public utility property) represent the collection of 2004 taxes. For 2004, tangible personal property taxes were levied after October 1, 2003, on the true value as of December 31, 2003. 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, 2004, 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 2004 operations.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - PROPERTY TAXES (continued)

The full tax rate for all City operations for the year ended December 31, 2004, was \$4.50 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Agricultural/Residential	\$199,835,080
Commercial/Industrial	87,585,910
Public Utility Real	109,250
Public Utility Personal	9,442,870
Tangible Personal	56,442,870
Total Assessed Value	<u>\$353,413,980</u>

NOTE 7 - 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 8 - RECEIVABLES

Receivables at December 31, 2004, 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:

	<u>Amount</u>
General Fund	
State of Ohio	\$70,598
Local Government	263,933
Union County	73,123
911 Reimbursement	41,037
Union County Law Library	3,332
Total General Fund	<u>\$452,023</u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 8 - RECEIVABLES (continued)

Special Revenue Funds	
Police Pension	
State of Ohio	\$5,421
Fire Pension	
State of Ohio	5,421
Street Construction and Repair	
Gas Tax	233,577
State of Ohio Reimbursement	109,616
Motor Vehicle License Tax	69,734
Mandatory Drug Fine	
Union County	700
State Highway Improvement	
Gas Tax	19,281
Motor Vehicle License Tax	5,654
Total Special Revenue Funds	<u>449,404</u>
Total Governmental Activities	<u>901,427</u>
Enterprise Funds	
Sewer	
Union County	125,710
Water	
Union County	132,104
Social Security Reimbursement	3,231
Total Business-Type Activities	<u>261,045</u>
Total All Funds	<u><u>\$1,162,472</u></u>

NOTE 9 – INTER-FUND TRANSFERS

Inter-fund transfers for the year ended December 31, 2004, consisted of the following:

		<u>Transfer From</u>
Transfer To		<u>General</u>
Street Fund		\$377,626
Debt Service		925,839
Other Governmental Funds		35,358
Total		<u><u>\$1,338,823</u></u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance at 12/31/2003	Additions	Reductions	Balance at 12/31/2004
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$1,084,725	\$0	\$0	\$1,084,725
Construction in Progress	33,390	5,255,042	(33,390)	5,255,042
Subtotal	<u>1,118,115</u>	<u>5,255,042</u>	<u>(33,390)</u>	<u>6,339,767</u>
Depreciable Capital Assets				
Buildings	3,242,953	0	0	3,242,953
Improvements Other Than Buildings	1,740,748	130,235	0	1,870,983
Computers and Computer Equipment	72,928	42,377	0	115,305
Furniture and Equipment	933,019	90,201	(40,875)	982,345
Vehicles	1,992,126	54,886	(46,583)	2,000,429
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	1,590,100	0	0	1,590,100
Subtotal	<u>75,010,339</u>	<u>317,699</u>	<u>(87,458)</u>	<u>75,240,580</u>
Less: Accumulated Depreciation				
Buildings	(1,287,985)	(78,163)	0	(1,366,148)
Improvements Other Than Buildings	(615,804)	(98,103)	0	(713,907)
Computers and Computer Equipment	(28,975)	(13,168)	0	(42,143)
Furniture and Equipment	(423,003)	(96,374)	19,860	(499,517)
Vehicles	(1,352,939)	(146,993)	31,892	(1,468,040)
Infrastructure				
Bridges	(72,198)	(3,932)	0	(76,130)
Roads	(38,282,226)	(1,207,595)	0	(39,489,821)
Storm Sewers	(504,527)	(73,307)	0	(577,834)
Other	(179,578)	(35,790)	0	(215,368)
Total Accumulated Depreciation	<u>(42,747,235)</u>	<u>(1,753,425)</u>	<u>51,752</u>	<u>(44,448,908)</u>
Total Depreciable Capital Assets, Net	<u>32,263,104</u>	<u>(1,435,726)</u>	<u>(35,706)</u>	<u>30,791,672</u>
Governmental Activities Capital Assets, Net	<u>\$33,381,219</u>	<u>\$3,819,316</u>	<u>(\$69,096)</u>	<u>\$37,131,439</u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 10 - CAPITAL ASSETS (continued)

	<u>Balance at</u> 12/31/2003	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> 12/31/2004
Business-Type Activities				
Land	\$1,668,500	\$0	\$0	\$1,668,500
Construction in Progress	773,138	355,776	(434,364)	694,550
Subtotal	<u>2,441,638</u>	<u>355,776</u>	<u>(434,364)</u>	<u>2,363,050</u>
Depreciable Capital Assets				
Buildings	9,757,973	0	0	9,757,973
Improvements Other Than Buildings	467,492	0	0	1,088,914
Computers and Computer Equipment	103,421	7,384	0	110,805
Furniture and Equipment	569,649	37,357	(14,000)	593,006
Vehicles	849,951	290,173	(97,260)	1,042,864
Infrastructure				
Sewer Lines	14,615,227	29,689	0	14,644,916
Water Lines	22,481,960	256,975	0	22,738,935
Subtotal	<u>48,845,673</u>	<u>1,243,000</u>	<u>(111,260)</u>	<u>49,977,413</u>
Less: Accumulated Depreciation				
Buildings	(3,525,157)	(236,888)	0	(3,762,045)
Improvements Other Than Buildings	(17,919)	(4,792)	0	(22,711)
Computers and Computer Equipment	(10,834)	(11,298)	0	(22,132)
Furniture and Equipment	(351,963)	(52,294)	14,000	(390,257)
Vehicles	(540,541)	(73,758)	93,989	(520,310)
Infrastructure				
Sewer Lines	(3,569,335)	(398,642)	0	(3,967,977)
Water Lines	(5,217,300)	(572,263)	0	(5,789,563)
Total Accumulated Depreciation	<u>(13,233,049)</u>	<u>(1,349,935)</u>	<u>107,989</u>	<u>(14,474,995)</u>
Total Depreciable Capital Assets, Net	<u>35,612,624</u>	<u>(106,935)</u>	<u>(3,271)</u>	<u>35,502,418</u>
Business-Type Activities Capital Assets, Net	<u>\$38,054,262</u>	<u>\$248,841</u>	<u>(\$437,635)</u>	<u>\$37,865,468</u>

Depreciation expense was charged to governmental programs as follows:

General Government	\$124,768
Security of Persons and Property	
Police	44,133
Fire	71,451
Other	3,043
Public Health	17,425
Transportation	1,417,869
Community Environment	18,081
Leisure Time Activities	56,655
Total Depreciation Expense	<u>\$1,753,425</u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 11 - RESTRICTED ASSETS

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

<u>Assets:</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equity in Pooled Cash and Cash Equivalents	\$4,414,144	\$13,439,635
Cash and Cash Equivalents with Fiscal Agent	0	422,217
Accounts Receivable	108,794	0
Due From Other Governments	449,404	0
Accrued Interest	985	0
Prepaid Items	612	0
Property Taxes Receivable	212,910	0
Special Assessments Receivable	309,751	0
Total Restricted Assets	<u>5,496,600</u>	<u>13,861,852</u>
Less Liabilities Payable from Restricted Assets	<u>550,675</u>	<u>422,217</u>
Restricted Net Assets	<u><u>\$4,945,925</u></u>	<u><u>\$13,439,635</u></u>

NOTE 12 - 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 2004, the City contracted for the following insurance coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Buildings	\$21,657,230	\$5,000
Personal Property	1,995,214	500
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	500

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

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 13 - CONTRACTUAL COMMITMENTS

At December 31, 2004, the City had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining on Contract</u>
Gannett-Fleming	Engineering - Raymond Road Reservoir	\$202,804
Jones and Henry	Engineering - New Water Well	3,875
Jones and Henry	Engineering MillCreek Sewer Lift Station	2,522
Strawser Paving	Various Paving Projects	13,599
Chemcote	Various Paving Projects	960,233
G. M. Baker & Sons	Installation – Water Well #5	173,285

NOTE 14 - 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. 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 Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642. Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations and the City is required to contribute 13.55%; 9.55% was the portion used to fund pension obligations for 2004. 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, 2004, 2003, and 2002, were \$552,818, \$547,975, and \$352,171, respectively; 72.16% has been contributed for 2004 and 100% has been contributed for 2003 and 2002. The unpaid contribution for 2004, in the amount of \$153,906, is recorded as a liability.

NOTE 14 - DEFINED BENEFIT PENSION PLANS (continued)

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% for police officers and 24% for firefighters. The City's contributions to OP&F for the years ended December 31, 2004, 2003, and 2002, were \$659,719, \$637,973, and \$388,886, respectively; 70.0% has been contributed for 2004 and 100% has been contributed for 2003 and 2002. The unpaid contribution for 2004, in the amount of \$196,067, is recorded as a liability.

NOTE 15 - 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 benefit and qualified 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 2004 employer contribution rate for local government employers was 13.55% of covered payroll; 4% was the portion used to fund health care for 2004.

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 8%, an annual increase in active employee total payroll of 4% compounded annually, and an additional increase in total payroll of .50% to 6.3% based on additional pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% annually. OPEB are financed through employer contributions and investment earnings. At December 31, 2004, the total number of active contributing participants in the Traditional and Combined Plans was 369,885. As of December 31, 2003, the actuarial value of net assets available for future OPEB payments were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial liability were \$26.9 billion and \$16.4 billion, respectively. The City's actual contributions for 2004 which were used to fund OPB were \$ 163,192.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

B. Ohio Police and Fire Pension Fund

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

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% of covered payroll and the firefighter employer contribution rate was 24% 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 2004 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, 2003, the date of the last actuarial valuation available, was 13,662 for police and 10,474 for firefighters. The City's actual contributions for 2004 that were used to fund post-employment benefits were \$113,270 for police and \$120,932 for firefighters. The Fund's total health care expenses for the year ended December 31, 2003, (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506.

NOTE 16 - 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% 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, 2004

NOTE 17 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2004, were as follows:

	Interest Rate	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004
Governmental Activities					
2003 Vehicle and Equipment	1%	\$835,000	\$0	\$835,000	\$0
2004 Vehicle and Equipment	1%	0	720,000	0	720,000
2004 Street Improvement	2%	0	1,000,000	0	1,000,000
2004 Tax Increment Financing	3%	0	6,847,931	0	6,847,931
Total Governmental Activities		<u>\$835,000</u>	<u>\$8,567,931</u>	<u>\$835,000</u>	<u>\$8,567,931</u>
Business-Type Activities					
Sewer Fund					
2003 Sewer System	1%	\$6,494,000	\$0	\$6,494,000	\$0
2003 Refunding Sewer Notes	2%	310,000	0	310,000	0
2004-A Sewer Notes	2%	0	7,006,370	0	7,006,370
2004 Sewer System	3%	0	6,389,890	0	6,389,890
Total Sewer Fund		<u>6,804,000</u>	<u>13,396,260</u>	<u>6,804,000</u>	<u>13,396,260</u>
Total Business Type Activities		<u>\$6,804,000</u>	<u>\$13,396,260</u>	<u>\$6,804,000</u>	<u>\$13,396,260</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% 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 18 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2004, was as follows:

	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Amounts Due in One Year
<u>Governmental Activities</u>					
<i>General Obligation Bonds</i>					
1986 Building Improvement	\$90,000	\$0	\$30,000	\$60,000	\$30,000
2000 Various Purpose	9,075,000	0	350,000	8,725,000	370,000
Total Debt Service G.O. Bonds	<u>9,165,000</u>	<u>0</u>	<u>380,000</u>	<u>8,785,000</u>	<u>400,000</u>
<i>Special Assessment Bonds</i>					
1995 Special Assessment - 6.50%	10,000	0	5,000	5,000	5,000
<i>Other Long-Term Obligations</i>					
Compensated Absences Payable	563,769	640,015	563,769	640,015	493,470
Capital Leases Payable	85,629	15,444	28,634	72,439	23,641
Total Other Long-Term Obligations	<u>649,398</u>	<u>655,459</u>	<u>592,403</u>	<u>712,454</u>	<u>517,111</u>
Total Governmental Activities	<u>\$9,824,398</u>	<u>\$655,459</u>	<u>\$977,403</u>	<u>\$9,502,454</u>	<u>\$922,111</u>

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

	<u>Balance December 31, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2004</u>	<u>Amounts Due in One Year</u>
<u>Business-Type Activities</u>					
<i>General Obligation Bonds</i>					
1992 Sewer System Improvement – 6.70-7.15%	\$785,000	\$0	\$785,000	\$0	\$0
1994 Various Improvement - 4.50- 5.55%	2,900,000	0	2,900,000	0	0
2004 Various Improvement Refunding - 2.00-3.70%	<u>0</u>	<u>3,818,153</u>	<u>330,000</u>	<u>3,488,153</u>	<u>375,000</u>
Total General Obligation Bonds	3,685,000	3,818,153	4,015,000	3,488,153	375,000
<i>Mortgage Revenue Bonds</i>					
1988 Sewer System Mort Rev	410,000	0	410,000	0	0
2002 Water System Mortgage Rev	3,695,000	0	130,000	3,565,000	135,000
2003 Water System Mortgage Rev	9,262,114	0	319,794	8,942,320	400,000
Unamortized Discount on Sale of Bonds	<u>(52,895)</u>	<u>0</u>	<u>(2,784)</u>	<u>(50,111)</u>	<u>(2,784)</u>
Total Mortgage Revenue Bonds	13,314,219	0	857,010	12,457,209	532,216
<i>Other Long-Term Obligations</i>					
Compensated Absences Payable	173,976	184,884	173,976	184,884	107,230
Capital Leases Payable	<u>456</u>	<u>13,934</u>	<u>2,281</u>	<u>12,109</u>	<u>2,665</u>
Total Other Long-Term Obligations	<u>174,432</u>	<u>198,818</u>	<u>176,257</u>	<u>196,993</u>	<u>109,895</u>
Total Business-Type Activities	<u>\$17,173,651</u>	<u>\$4,008,818</u>	<u>\$5,048,267</u>	<u>\$16,142,355</u>	<u>\$1,017,111</u>

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

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.

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

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.

2004 Various Purpose Refunding Bonds

The Various Purpose Refunding general obligation bonds are serial bonds issued to currently refund \$3,714,000, including a call premium of \$29,000, of outstanding various purpose general obligation bonds issued in 1992 and 1994. The refunding was undertaken for the purpose of reducing interest rates and debt service on the prior bonds. This transaction resulted in a savings to the City of \$367,615. The 2004 bonds are not subject to redemption prior to maturity. The bonds mature on December 1, 2004 through December 1, 2013, in the amount of \$3,810,000, at a redemption price equal to 100% of the principal plus accrued interest to the redemption date. The amount of \$3,714,000 from the 2004 bonds was placed in an escrow fund to defease the 1992 and 1994 bonds which were then optionally redeemed on June 1, 2004.

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 are of 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 uses 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	\$10,648,694
Water Replacement and Improvement	2,790,941

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% of the principal plus accrued interest to the redemption date.

2003 Water System Mortgage Revenue Refunding Bonds

The Water System Mortgage Revenue Refunding Bonds were issued to currently refund the City's Series 1993 water system mortgage revenue bonds. The refunding was undertaken for the purpose of reducing interest rates and debt service on the prior bonds. This transaction resulted in a savings to the City of \$667,605. The refunding 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% 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% of the principal plus accrued interest. The amount of \$8,908,850 from the 2003 bonds was placed in an escrow fund along with \$847,750 from the debt service reserve fund to defease the 1993 bonds which were then redeemed on December 1, 2003 in their entirety.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

Fund assets, whose uses 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, 2004, were as follows:

Restricted Assets Held by the Trustee:	
Mortgage Revenue Bond Current Debt Service	\$25,248
Mortgage Revenue Bond Fund	38
Mortgage Revenue Bond Reserve Fund	396,931

The City's overall legal debt margin was \$19,775,450 at December 31, 2004.

Principal and interest requirements to retire general obligation bonds, special assessment bonds, and mortgage revenue bonds at December 31, 2004, were as follows:

Year	Governmental Activities General Obligation Bonds				Business-Type Activities General Obligation Bonds	
	1986 Building Improvement		2000 Various Improvement		*2004 Various Improvement Refunding	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$30,000	\$4,425	\$370,000	\$449,780	\$375,000	\$97,433
2006	30,000	2,213	385,000	431,280	380,000	89,933
2007	0	0	405,000	412,030	395,000	82,333
2008	0	0	425,000	391,780	400,000	73,840
2009	0	0	445,000	370,530	410,000	63,840
2010-2014	0	0	2,590,000	1,495,150	1,520,000	126,385
2015-2019	0	0	3,330,000	760,285	0	0
2020	0	0	775,000	41,850	0	0
Totals	\$60,000	\$6,638	\$8,725,000	\$4,352,685	\$3,480,000	\$533,764

*The above amortization schedule for the 2004 Various Improvement Refunding Bonds does not agree to the bonds payable amount on page 44 because it does not include \$8,153 in an unamortized premium on the 2004 bond issue.

Governmental Activities Special Assessment Bonds		
1995 Jordan Assessment		
Year	Principal	Interest
2005	\$5,000	\$325
Totals	\$5,000	\$325

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

Year	Business-Type Activities Mortgage Revenue Bonds			
	**2003 Water System Mortgage Revenue Refunding		2002 Water System Mortgage Revenue Improvement	
	Principal	Interest	Principal	Interest
2005	\$400,000	\$326,664	\$135,000	\$167,155
2006	410,000	318,664	140,000	162,565
2007	420,000	310,462	145,000	157,385
2008	425,000	301,644	150,000	151,585
2009	435,000	291,018	155,000	145,360
2010-2014	2,405,000	1,240,742	895,000	616,485
2015-2019	2,950,000	687,603	1,125,000	381,893
2020-2022	1,360,000	91,643	820,000	84,785
Totals	\$8,805,000	\$3,568,440	\$3,565,000	\$1,867,213

**The above amortization schedule for the 2003 Water System Mortgage Revenue Refunding Bonds does not agree to the bonds payable amount on page 44 because 1.) it does not include \$107,114 in an unamortized premium on the 2003 bond issue and 2.) because the City paid its scheduled bond payments for 2004 to its trust company, but the trust company had not yet withdrawn the whole amount as of year-end, having a balance of \$30,206 in a trust cash account. This balance is shown in the "Cash and Cash Equivalents with Fiscal Agents" account balance.

NOTE 19 - 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 \$132,743 in the governmental funds and \$18,262 in the enterprise funds. These amounts represent the present value of the minimum lease payments at the time of acquisition. Principal payments in 2004 were \$28,634 and \$2,281, in governmental and enterprise funds, respectively.

	Governmental Activities	Business-Type Activities
Property under Capital Lease	\$132,743	\$18,262
Less Accumulated Depreciation	(61,014)	(6,896)
Total December 31, 2004	\$71,729	\$11,366

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 19 - 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, 2004.

Year	Governmental Activities	Business-Type Activities
2005	\$27,335	\$4,131
2006	25,030	3,812
2007	17,146	3,812
2008	8,280	3,639
Total	<u>77,791</u>	<u>15,394</u>
Less Amount Representing Interest	<u>(5,352)</u>	<u>(3,285)</u>
Present Value of Net Minimum Lease Payments	<u>\$72,439</u>	<u>\$12,109</u>

NOTE 20 - 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 ongoing financial interest and/or responsibility with this organization.

NOTE 21 - 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, 2004 to December 31, 2004, 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.

City of Marysville
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 22 - SUBSEQUENT EVENTS

On March 9, 2005, the City issued general obligation notes, in the amount of \$1,405,000, to retire notes previously issued, in the amount of \$1,720,000, for motor vehicle purchases, equipment, a pumper truck, and various street resurfacing projects. The notes have an interest rate of 3.00% and mature on March 8, 2006.

On April 20, 2005, 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 3.75% and mature on March 9, 2006.

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

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, (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 27, 2005. 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.

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 basic financial statements and not to provide an opinion 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, 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 material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City in a separate letter dated June 27, 2005.

City of Marysville

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 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 members of City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

June 27, 2005



**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
SEPTEMBER 6, 2005**