



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF MARYSVILLE
UNION COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marysville, Union County, Ohio, (the City) as of and for the year ended December 31, 2001, 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 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 financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marysville, Union County, Ohio, as of December 31, 2001, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund 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 October 7, 2002, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis 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 the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized, cursive script.

JIM PETRO
Auditor of State

October 7, 2002

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2001

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, 2001. 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 2001 are as follows:

- .. In total, net assets increased \$125,500. Net assets of governmental activities decreased \$1.9 million, which represents a 6.1 percent decrease from 2000. Net assets of business-type activities increased \$2.0 million or 13.0 percent from 2000.
- .. Total assets of governmental activities decreased \$3.1 million, which represents a 6.9 percent decrease from 2000.
- .. Total liabilities of governmental activities decreased by \$1.3 million (8.7%), which is attributable to decreases in contracts payable and a decrease in long term debt.
- .. Total assets of business-type activities increased \$2.4 million, which represents a 6.0 percent increase from 2000.
- .. Total liabilities of business-type activities increased by \$422,800 (1.7%).
- .. In total, cash and cash equivalents decreased \$305,000 or 3.1 percent. Total cash and cash equivalents of governmental activities decreased \$1.3 million or 25.9 percent, while cash and cash equivalents in business-type activities increased over \$1.1 million or 27.3 percent.
- .. Overall, the book value of capital assets decreased by over \$735,000. Total capital assets from governmental activities decreased by \$1.5 million or 4.0 percent. Capital assets from business-type activities increased by over \$740,000 or 2.0 percent.
- .. City income tax revenue decreased \$70,248 or 1.4 percent. This is the first year accrual numbers were available to permit comparisons.

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 2001?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

Reporting the City of Marysville's Most Significant Funds

Fund Financial Statements

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

Governmental Funds - Most of the City's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the year end balances available for spending in the future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services provided. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future on services provided to residents. The relationship between governmental activities reported in the statement of net assets and the statement of activities and the governmental fund statements is 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, 2001

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 2001 and 2000.

	Net Assets (In Millions)					
	Governmental Activities		Business-Type Activities		Total	
	2001	2000	2001	2000	2001	2000
Assets						
Current and Other Assets	\$7.9	\$9.6	\$6.0	\$4.3	\$13.9	\$13.9
Capital Assets, Net	35.6	37.0	37.8	37.1	73.4	74.1
Total Assets	43.5	46.6	43.8	41.4	87.3	88.0
Liabilities						
Current and Other Liabilities	(2.2)	(2.5)	(7.4)	(0.7)	(9.6)	(3.2)
Long-Term Liabilities:						
Due Within One Year	(1.7)	(2.3)	(3.9)	(9.3)	(5.6)	(11.6)
Due in More Than One Year	(9.8)	(10.1)	(14.7)	(15.6)	(24.5)	(25.7)
Total Liabilities	(13.7)	(14.9)	(26.0)	(25.6)	(39.7)	(40.5)
Net Assets						
Invested in Capital						
Assets Net of Related Debt	24.6	25.1	13.1	12.9	37.7	38.0
Restricted for:						
Capital Projects	0.9	1.4	0.0	0.0	0.9	1.4
Debt Service	0.3	0.9	0.0	0.0	0.3	0.9
Other Purposes	1.1	1.1	0.0	0.0	1.1	1.1
Sewer Bond Covenants	0.0	0.0	1.8	1.0	1.8	1.0
Water Bond Covenants	0.0	0.0	0.8	0.6	0.8	0.6
Future Debt	0.0	0.0	1.2	1.2	1.2	1.2
Unrestricted	2.9	3.2	0.9	0.1	3.8	3.3
Total Net Assets	\$29.8	\$31.7	\$17.8	\$15.8	\$47.6	\$47.5

Total Governmental Activity assets decreased \$3.1 million. Equity in pooled cash and cash equivalents for governmental activities decreased \$1.3 million. This decrease is due primarily to the issuance of bonds in the fall, 2000 which were used to complete several capital projects ongoing at that time and which inflated the ending cash balance for that period.

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2001

The capital assets of the City's business type activities increased by a smaller amount than in previous years, only increasing by \$740,000 as the City completed several major capital projects which had been ongoing since 2000. The City continues to invest heavily in its water and wastewater treatment facilities. Continual upgrades to these plants and the lines providing services to the residents of the City have been a top priority of the City for at least the last ten years, when the water division was purchased from the Ohio Water Company. These major improvements and the continued growth of the City prompted a financial feasibility study in 2001. This study recommended usage rate adjustments for each of the next five years to ensure the continued success of these activities. These were the first rate increases experienced by the residents since 1987. The first rate increase was enacted May 1, 2001, with the rates to increase January 1 of each year through 2005.

Table 2 shows the changes in net assets for the year ended December 31, 2001.

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2001

	Changes in Net Assets (In Millions)					
	Governmental Activities		Business-Type Activities		Total	
	2001	2000	2001	2000	2001	2000
Revenues						
Program Revenues						
Charges for Services	\$1.2	\$2.1	\$7.7	\$6.1	\$8.9	\$8.2
Operating Grants, Contributions, and Interest	0.6	0.7	0.0	0.0	0.6	0.7
Capital Grants and Contributions	0.2	1.8	1.1	0.5	1.3	2.3
General Revenues						
Property Taxes	1.2	1.1	0.0	0.0	1.2	1.1
Municipal Income Taxes	4.8	4.9	0.0	0.0	4.8	4.9
Grants and Entitlements	1.2	1.0	0.0	0.0	1.2	1.0
Transfers	0.2	(3.1)	(0.2)	3.1	0.0	0.0
Other	0.6	0.3	0.0	0.3	0.6	0.6
Total Revenues	10.0	8.8	8.6	10.0	18.6	18.8
Program Expenses						
General Government	\$2.1	2.3	\$0.0	0.0	2.1	2.3
Security of Persons and Property:						
Police	2.0	2.1	0.0	0.0	2.0	2.1
Fire	2.4	2.3	0.0	0.0	2.4	2.3
Other	0.5	0.7	0.0	0.0	0.5	0.7
Public Health Services	0.3	0.0	0.0	0.0	0.3	0.0
Leisure Time Activities	0.4	0.3	0.0	0.0	0.4	0.3
Transportation	2.6	2.2	0.0	0.0	2.6	2.2
Community Environment	0.4	0.6	0.0	0.0	0.4	0.6
Interest and Fiscal Charges	0.7	0.4	0.0	0.0	0.7	0.4
Sanitation	0.0	0.0	0.8	0.8	0.8	0.8
Sewer	0.0	0.0	3.1	2.7	3.1	2.7
Water	0.0	0.0	3.2	3.2	3.2	3.2
Total Expenses	11.4	10.9	7.1	6.7	18.5	17.6
Increase (Decrease) in Net Assets	(\$1.4)	(\$2.1)	\$1.5	\$3.3	\$0.1	\$1.2

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2001

Governmental Activities

Several revenue sources fund our governmental activities, with income taxes generally being the biggest contributor. The income tax rate of 1 percent was enacted in 1968. The income tax revenue for 2001 was approximately \$4.8 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 80.6 percent of all revenue in the governmental activities, the City monitors each of these revenue sources very closely for fluctuations.

Until 2001, the City was able to increase income tax collections approximately 10 percent per year (cash receipts). This is the first year accrual numbers are available for comparison which indicate income tax revenues remained constant between 2000 and 2001. While there was no growth in receipts, the City did not experience a significant decline in revenues during the nationwide recession. Our tax base continues to grow with annexation and expansion of several businesses along Industrial Parkway and smaller shops and stores expanding in the City. The City of Marysville was very aggressive in 2001 collecting delinquent income tax. Local government funding from the State fluctuates based on the economic condition of the State and has been increasing steadily, although the State has frozen distributions from the local government and local government revenue assistance funds. While this will not reduce the level of funding received from these sources, there will be no additional growth in these distributions during this period.

Security of persons and property and water, sewer, and sanitation services are major activities of the City, generating 65 percent of total expenses. Several changes made in these departments, due to retirement and realignment of job responsibilities, have streamlined their operations. An effort has been made to reduce the amount of overtime worked while providing the same levels of service without additional personnel. The fire division has worked with the City administration in reducing costs or holding costs in line with training being done in house, restricted use of overtime, and divisional employees performing many of the maintenance tasks in and around the fire station and on divisional equipment. The City does monitor the police and fire division budgets very closely as these two divisions use a significant amount of general revenues.

Although the City has worked diligently to increase our income tax base, we still continue to strive to provide better service at a lower cost per man-hour. 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 our sanitation, sewer, and water departments. The water and wastewater treatment plants provide services to a resident base in excess of 16,000. The City also provides wastewater treatment for the Village of Milford Center and several small unincorporated areas where Union County has provided the residents with water and wastewater treatment lines. The water plant generated operating revenues in excess of \$3.7 million and had operating expenses of \$2.4 million. The wastewater treatment plant generated operating revenues in excess of \$3.1 million and had operating expenses of \$2.6 million. The City's goal is to cover the costs of operations as well as building a cash balance in these funds equivalent to one-third of the department's annual operating budget as recommended by the City's bond underwriters.

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2001

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 \$9.7 million and expenditures of \$12.3 million.

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 2001, 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 our major activities such as our 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, budgeted revenues were \$9.5 million and were not adjusted during the year. Original budgeted expenditures were approximately \$11 million and final budgeted expenditures were \$11.1 million.

Capital Assets and Debt Administration

Capital Assets

Capital Assets at December 31, 2001
(Net of Depreciation, in Millions)

	Governmental Activities		Business-Type Activities		Total	
	2001	2000	2001	2000	2001	2000
Land	\$0.7	\$0.7	\$1.6	\$1.6	\$2.3	\$2.3
Buildings	2.1	2.1	6.7	6.9	8.8	9.0
Improvements other than Buildings	0.6	0.4	0.0	0.0	0.6	0.4
Furniture and Equipment	0.6	0.5	0.2	0.2	0.8	0.7
Vehicles	0.9	0.9	0.4	0.4	1.3	1.3
Infrastructure						
Bridges	0.3	0.3	0.0	0.0	0.3	0.3
Roads	26.3	27.7	0.0	0.0	26.3	27.7
Storm Sewer	2.6	2.6	0.0	0.0	2.6	2.6
Other	1.3	1.3	28.9	28.0	30.2	29.3
Construction in Progress	0.2	0.5	0.0	0.0	0.2	0.5
Totals	\$35.6	\$37.0	\$37.8	\$37.1	\$73.4	\$74.1

The decrease noted in governmental funds was due to increased depreciation costs for our road infrastructure. The City has been unable to fund significant road improvement projects for several years and has concentrated on patching roads to try and extend the life of the asset until a funding solution specific to road improvements can be found. The increases seen in the business-type activities were due to the improvement projects discussed on previous pages. The Administration has made it a priority to properly manage the growth of the City and to ensure the utilities are capable of meeting the needs of the growing population.

City of Marysville
Management's Discussion and Analysis
For the Year Ended December 31, 2001

Debt

At December 31, 2001, the City of Marysville had in excess of \$30.1 million in bonds, notes, claims, judgments, and compensated absences outstanding, \$5.6 million due within one year.

Outstanding Debt at Year End
(In Millions)

	Governmental Activities		Business-Type Activities		Total	
	2001	2000	2001	2000	2001	2000
Notes	\$1.1	\$1.7	\$9.8	\$8.4	10.9	10.1
General Obligation Bonds	9.9	10.2	4.2	4.5	14.1	14.7
Special Assessment Bonds	0.0	0.0	0.0	0.0	0.0	0.0
Mortgage Revenue Bonds	0.0	0.0	11.3	11.8	11.3	11.8
Compensated Absences and Capital Leases	0.6	0.5	0.1	0.1	0.7	0.6
Total	\$11.6	\$12.4	\$25.4	\$24.8	\$37.0	\$37.2

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 1990's. 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 2002 and 2003.

The City's overall legal debt margin was \$23,242,823 at December 31, 2001.

The Future

The City of Marysville is working diligently to increase revenues and decrease costs to put the City on more stable footing. Between 1990 and 2001, the City of Marysville grew from a community of 9,500 to a community approaching 16,000 residents. As is common in all cities experiencing massive growth patterns, we are feeling some growing pains and have significant capital improvement needs for future periods.

The City has purchased numerous pieces of new equipment in the last few years and has made a commitment not to borrow additional monies for assets with a short useful life. Items purchased include replacement vehicles for every division within the City. We have made an effort to replace equipment with large maintenance needs with newer equipment which will operate more efficiently and will incur lower maintenance costs over the next few years.

We have also made large expenditures for building repairs and maintenance. In March 2000 we opened the Public Service Center which houses many of our water division employees, and the streets, building and grounds, and parks and recreation departments. The Municipal Building will continue to be evaluated during 2002 to determine the City's needs for the future as well as mapping a strategy to provide for those needs.

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

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

Contacting the City's Finance Department

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

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City of Marysville
Statement of Net Assets
December 31, 2001

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$4,116,467	\$3,473,029	\$7,589,496
Cash and Cash Equivalents with Fiscal Agent	0	1,796,520	1,796,520
Accounts Receivable	95,554	835,860	931,414
Municipal Income Taxes Receivable	822,936	0	822,936
Other Local Taxes Receivable	1,931	0	1,931
Due from Other Governments	757,115	124,605	881,720
Prepaid Items	83,413	64,973	148,386
Internal Balances	272,352	(272,352)	0
Property Taxes Receivable	1,319,194	0	1,319,194
Special Assessments Receivable	389,341	0	389,341
Interest Receivable	14,927	0	14,927
Land	677,539	1,668,500	2,346,039
Depreciable Capital Assets, Net	<u>34,919,465</u>	<u>36,136,572</u>	<u>71,056,037</u>
 Total Assets	 <u>43,470,234</u>	 <u>43,827,707</u>	 <u>87,297,941</u>
<u>Liabilities</u>			
Accrued Wages Payable	202,175	54,009	256,184
Accounts Payable	78,344	99,192	177,536
Contracts Payable	78,913	196,783	275,696
Due to Other Governments	347,076	68,134	415,210
Deferred Revenue	1,287,945	0	1,287,945
Retainage Payable	45,483	5,969	51,452
Accrued Interest Payable	94,756	180,034	274,790
Notes Payable	0	6,815,000	6,815,000
Long-Term Liabilities:			
Due Within One Year	1,714,128	3,904,004	5,618,132
Due in More than One Year	<u>9,822,484</u>	<u>14,714,209</u>	<u>24,536,693</u>
 Total Liabilities	 <u>13,671,304</u>	 <u>26,037,334</u>	 <u>39,708,638</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	24,591,244	13,109,022	37,700,266
Restricted for:			
Capital Projects	841,843	0	841,843
Debt Service	331,945	0	331,945
Other Purposes	1,103,732	0	1,103,732
Sewer Construction	0	174,801	174,801
Sewer Reserve	0	194,431	194,431
Sewer Replacement and Improvement	0	1,477,444	1,477,444
Water Replacement and Improvement	0	762,267	762,267
Water Reserve	0	58,333	58,333
Future Debt	0	1,162,827	1,162,827
Unrestricted	<u>2,930,166</u>	<u>851,248</u>	<u>3,781,414</u>
 Total Net Assets	 <u>\$29,798,930</u>	 <u>\$17,790,373</u>	 <u>\$47,589,303</u>

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Activities
For the Year Ended December 31, 2001

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities</u>				
General Government	\$2,093,649	\$7,530	\$0	\$0
Security of Persons and Property:				
Police	2,056,512	90,948	112,589	0
Fire	2,435,220	308,346	0	0
Other	495,098	568,458	67,664	0
Public Health Services	288,371	49,126	0	0
Leisure Time Activities	420,364	170,232	0	80,000
Transportation	2,567,479	0	439,669	137,500
Community Environment	368,533	0	0	0
Interest and Fiscal Charges	735,307	0	0	0
Total Governmental Activities	<u>11,460,533</u>	<u>1,194,640</u>	<u>619,922</u>	<u>217,500</u>
<u>Business-Type Activities</u>				
Sanitation	811,060	806,862	0	0
Sewer	3,047,124	3,122,546	0	1,096,081
Water	3,236,614	3,755,714	0	43,000
Total Business-Type Activities	<u>7,094,798</u>	<u>7,685,122</u>	<u>0</u>	<u>1,139,081</u>
Total	<u>\$18,555,331</u>	<u>\$8,879,762</u>	<u>\$619,922</u>	<u>\$1,356,581</u>

General Revenues

Property Taxes
Other Local Taxes
Municipal Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Interest
Contributions and Donations
Other Revenues
Transfers

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - Restated Note 3

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$2,086,119)	\$0	(\$2,086,119)
(1,852,975)	0	(1,852,975)
(2,126,874)	0	(2,126,874)
141,024	0	141,024
(239,245)	0	(239,245)
(170,132)	0	(170,132)
(1,990,310)	0	(1,990,310)
(368,533)	0	(368,533)
(735,307)	0	(735,307)
<u>(9,428,471)</u>	<u>0</u>	<u>(9,428,471)</u>
0	(4,198)	(4,198)
0	1,171,503	1,171,503
<u>0</u>	<u>562,100</u>	<u>562,100</u>
<u>0</u>	<u>1,729,405</u>	<u>1,729,405</u>
<u>(9,428,471)</u>	<u>1,729,405</u>	<u>(7,699,066)</u>
1,202,006	0	1,202,006
13,972	0	13,972
4,797,935	0	4,797,935
1,235,836	0	1,235,836
292,377	59,930	352,307
12,619	0	12,619
199,408	7,448	206,856
227,562	(227,562)	0
<u>7,981,715</u>	<u>(160,184)</u>	<u>7,821,531</u>
(1,446,756)	1,569,221	122,465
<u>31,245,686</u>	<u>16,221,152</u>	<u>47,466,838</u>
<u>\$29,798,930</u>	<u>\$17,790,373</u>	<u>\$47,589,303</u>

City of Marysville
Balance Sheet
Governmental Funds
December 31, 2001

	General Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$2,070,898	\$37,360	\$2,008,209	\$4,116,467
Receivables:				
Property Taxes	1,142,518	0	176,676	1,319,194
Other Local Taxes	1,931	0	0	1,931
Municipal Income Taxes	822,936	0	0	822,936
Accounts	82,118	0	13,436	95,554
Special Assessments	0	389,341	0	389,341
Interest	14,927	0	0	14,927
Interfund	272,352	0	0	272,352
Due from Other Governments	491,131	0	265,984	757,115
Prepaid Items	64,915	0	18,498	83,413
Total Assets	\$4,963,726	\$426,701	\$2,482,803	\$7,873,230
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts Payable	\$74,165	\$0	\$4,179	\$78,344
Contracts Payable	0	0	78,913	78,913
Retainage Payable	0	0	45,483	45,483
Accrued Wages Payable	185,529	0	16,646	202,175
Due to Other Governments	87,438	0	8,639	96,077
Deferred Revenue	1,823,138	389,341	377,382	2,589,861
Total Liabilities	2,170,270	389,341	531,242	3,090,853
<u>Fund Balance</u>				
Reserved for Encumbrances	403,336	17,332	716,587	1,137,255
Unreserved, Reported in:				
General Fund	2,390,120	0	0	2,390,120
Special Revenue Funds	0	0	1,042,778	1,042,778
Debt Service Fund	0	20,028	0	20,028
Capital Projects Funds	0	0	192,196	192,196
Total Fund Balance	2,793,456	37,360	1,951,561	4,782,377
Total Liabilities and Fund Balance	\$4,963,726	\$426,701	\$2,482,803	\$7,873,230

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, 2001

Total Governmental Fund Balance	\$4,782,377
<p>Amounts reported for governmental activities in the statement of net assets are different due to:</p>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	35,597,004
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:</p>	
Property Taxes	31,249
Other Local Taxes	1,931
Municipal Income Taxes	367,132
Special Assessments	389,341
Charges for Services	22,422
Fees, Licenses, and Permits	28,328
Intergovernmental	458,137
Other Revenues	<u>3,376</u>
Total	1,301,916
<p>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</p>	
	(250,999)
<p>Long-term liabilities, including accrued interest payable and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:</p>	
Accrued Interest Payable	(94,756)
Notes Payable	(1,065,000)
Compensated Absences Payable	(530,852)
Capital Leases Payable	(40,760)
Special Assessment Bonds Payable	(20,000)
General Obligation Bonds Payable	<u>(9,880,000)</u>
Total	<u>(11,631,368)</u>
Net Assets of Governmental Activities	<u><u>\$29,798,930</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2001

	General Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$1,044,326	\$0	\$161,230	\$1,205,556
Other Local Taxes	13,993	0	0	13,993
Municipal Income Taxes	4,824,881	0	0	4,824,881
Special Assessments	0	27,903	0	27,903
Charges for Services	485,502	0	26,714	512,216
Fees, Licenses, and Permits	237,876	0	54,421	292,297
Fines and Forfeitures	304,452	0	169,733	474,185
Intergovernmental	1,290,434	0	544,856	1,835,290
Interest	279,958	12,011	6,402	298,371
Contributions and Donations	12,619	0	80,000	92,619
Other Revenues	115,736	0	0	115,736
Total Revenues	8,609,777	39,914	1,043,356	9,693,047
<u>Expenditures</u>				
Current:				
General Government	1,803,582	0	180	1,803,762
Security of Persons and Property:				
Police	1,806,852	0	217,096	2,023,948
Fire	2,160,506	0	76,728	2,237,234
Other	438,835	0	24,338	463,173
Leisure Time Activities	331,020	0	73,353	404,373
Transportation	0	0	830,937	830,937
Public Health Services	238,073	0	0	238,073
Community Environment	324,092	0	0	324,092
Capital Outlay	480,927	0	686,689	1,167,616
Debt Service:				
Principal Retirement	18,999	2,030,130	65	2,049,194
Interest and Fiscal Charges	2,131	738,358	10	740,499
Total Expenditures	7,605,017	2,768,488	1,909,396	12,282,901
Excess of Revenues Over (Under) Expenditures	1,004,760	(2,728,574)	(866,040)	(2,589,854)
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued	0	1,065,000	0	1,065,000
Proceeds from Sale of Fixed Assets	20,213	0	22,300	42,513
Transfers In	0	1,789,980	489,324	2,279,304
Transfers Out	(1,342,879)	(708,863)	0	(2,051,742)
Total Other Financing Sources (Uses)	(1,322,666)	2,146,117	511,624	1,335,075
Net Change in Fund Balance	(317,906)	(582,457)	(354,416)	(1,254,779)
Fund Balance Beginning of Year	3,111,362	619,817	2,305,977	6,037,156
Fund Balance End of Year	\$2,793,456	\$37,360	\$1,951,561	\$4,782,377

See Accompanying Notes to the Basic Financial Statements

City of Marysville
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance
 of Governmental Funds to Statement of Activities
 For the Year Ended December 31, 2001

Net Change in Fund Balance - Total Governmental Funds	(\$1,254,779)
<p>Amounts reported for governmental activities in the statement of activities are different due to:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.</p>	
	(1,060,079)
<p>The Statement of Activities reports contributed fixed assets as revenue. Fixed assets are not reported in the governmental funds.</p>	
	137,500
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Intergovernmental Receivable	10,523
Municipal Income Taxes Receivable	(26,946)
Property Taxes Receivable	(3,520)
Special Assessments Receivable	(27,903)
	(47,846)
<p>In the statement of activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from these assets.</p>	
	(75,457)
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of activities.</p>	
	2,049,194
<p>Note proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities in the statement of activities.</p>	
	(1,065,000)
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p>	
	5,192
<p>Some expenses reported in the statement of activities which represent contractually required pension contributions, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated Absences Payable	(87,964)
Intergovernmental Payables	(47,517)
	(135,481)
Change in Net Assets of Governmental Activities	<u>(\$1,446,756)</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, 2001

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$1,088,000	\$1,088,000	\$1,044,326	(\$43,674)
Other Local Taxes	6,500	6,500	9,588	3,088
Municipal Income Taxes	5,450,000	5,450,000	5,118,318	(331,682)
Charges for Services	1,189,310	1,189,310	1,063,131	(126,179)
Fees, Licenses, and Permits	207,500	207,500	237,876	30,376
Fines and Forfeitures	450,000	450,000	307,605	(142,395)
Intergovernmental	751,800	751,800	1,234,556	482,756
Interest	211,000	211,000	265,031	54,031
Contributions and Donations	18,000	18,000	12,619	(5,381)
Other Revenues	131,325	131,325	112,777	(18,548)
Total Revenues	9,503,435	9,503,435	9,405,827	(97,608)
<u>Expenditures</u>				
Current:				
General Government	2,953,611	3,010,951	2,731,515	279,436
Security of Persons and Property:				
Police	1,918,520	1,940,075	1,904,312	35,763
Fire	2,347,821	2,353,921	2,328,905	25,016
Other	483,699	502,862	450,045	52,817
Leisure Time Activities	435,960	435,960	373,474	62,486
Community Environment	718,392	718,392	571,547	146,845
Public Health Services	300,149	300,149	273,009	27,140
Total Expenditures	9,158,152	9,262,310	8,632,807	629,503
Excess of Revenues Over Expenditures	345,283	241,125	773,020	531,895
<u>Other Financing Sources (Uses)</u>				
Proceeds on Sale of Fixed Assets	0	0	20,213	20,213
Advances In	0	0	556,894	556,894
Advances Out	0	0	(352,880)	(352,880)
Transfers In	0	0	0	0
Transfers Out	(1,784,436)	(1,809,436)	(1,342,879)	466,557
Total Other Financing Sources (Uses)	(1,784,436)	(1,809,436)	(1,118,652)	690,784
Net Change in Fund Balance	(1,439,153)	(1,568,311)	(345,632)	1,222,679
Fund Balance Beginning of Year	1,543,990	1,543,990	1,543,990	0
Prior Year Encumbrances Appropriated	431,889	431,889	431,889	0
Fund Balance End of Year	\$536,726	\$407,568	\$1,630,247	\$1,222,679

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Net Assets
Enterprise Funds
December 31, 2001

	Sanitation	Sewer	Water	Total
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$156,764	\$79,520	\$569,479	\$805,763
Accounts Receivable	83,959	374,916	376,985	835,860
Due from Other Governments	0	48,043	76,562	124,605
Prepaid Items	0	43,414	21,559	64,973
Total Current Assets	240,723	545,893	1,044,585	1,831,201
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	0	1,846,666	820,600	2,667,266
Cash and Cash Equivalents with Fiscal Agents	0	841,573	954,947	1,796,520
Total Restricted Assets	0	2,688,239	1,775,547	4,463,786
<u>Non-Current Assets</u>				
Land	0	6,000	1,662,500	1,668,500
Depreciable Capital Assets, Net	90,453	17,589,803	18,456,316	36,136,572
Total Non-Current Assets	90,453	17,595,803	20,118,816	37,805,072
Total Assets	331,176	20,829,935	22,938,948	44,100,059
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accrued Wages Payable	5,372	22,429	26,208	54,009
Accounts Payable	44,361	34,239	20,592	99,192
Contracts Payable	0	191,040	5,743	196,783
Due to Other Governments	7,573	33,233	27,328	68,134
Interfund Payable	0	272,352	0	272,352
Retainage Payable	0	0	5,969	5,969
Accrued Interest Payable	0	35,052	96,289	131,341
Notes Payable	0	6,815,000	0	6,815,000
Capital Leases Payable	1,078	1,144	49	2,271
Compensated Absences Payable	3,705	49,387	48,641	101,733
General Obligation Bonds Payable	0	120,350	149,650	270,000
Payable from Restricted Assets:				
Mortgage Revenue Bonds Payable	0	280,000	305,000	585,000
Accrued Interest Payable	0	0	48,693	48,693
Total Current Liabilities	62,089	7,854,226	734,162	8,650,477
<u>Non-Current Liabilities</u>				
Capital Leases Payable	49	175	3,555	3,779
Compensated Absences Payable	1,417	15,892	33,121	50,430
Notes Payable	0	0	2,945,000	2,945,000
General Obligation Bonds Payable	0	1,696,050	2,273,950	3,970,000
Mortgage Revenue Bonds Payable	0	710,000	9,980,000	10,690,000
Total Non-Current Liabilities	1,466	2,422,117	15,235,626	17,659,209
Total Liabilities	63,555	10,276,343	15,969,788	26,309,686
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	89,326	8,253,084	4,766,612	13,109,022
Restricted for:				
Sewer Construction	0	174,801	0	174,801
Sewer Reserve	0	194,431	0	194,431
Sewer Replacement and Improvement	0	1,477,444	0	1,477,444
Water Replacement and Improvement	0	0	762,267	762,267
Water Reserve	0	0	58,333	58,333
Future Debt	0	561,573	601,254	1,162,827
Unrestricted (Deficit)	178,295	(107,741)	780,694	851,248
Total Net Assets	\$267,621	\$10,553,592	\$6,969,160	\$17,790,373

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, 2001

	<u>Sanitation</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
<u>Operating Revenues</u>				
Charges for Services (Pledged, see note 19)	\$806,862	\$2,920,491	\$3,373,380	\$7,100,733
Tap-In Fees	0	202,055	382,334	584,389
Total Operating Revenues	<u>806,862</u>	<u>3,122,546</u>	<u>3,755,714</u>	<u>7,685,122</u>
<u>Operating Expenses</u>				
Personal Services	175,977	756,620	846,901	1,779,498
Contractual Services	528,790	804,360	464,501	1,797,651
Materials and Supplies	47,035	456,253	516,302	1,019,590
Other Expenses	39,521	12,893	9,974	62,388
Depreciation	19,662	621,808	603,035	1,244,505
Total Operating Expenses	<u>810,985</u>	<u>2,651,934</u>	<u>2,440,713</u>	<u>5,903,632</u>
Operating Income (Loss)	<u>(4,123)</u>	<u>470,612</u>	<u>1,315,001</u>	<u>1,781,490</u>
<u>Non-Operating Revenues (Expenses)</u>				
Gain on Sale of Fixed Assets	0	0	7,448	7,448
Interest Revenue	0	15,400	44,530	59,930
Interest Expense	(75)	(395,190)	(795,901)	(1,191,166)
Total Non-Operating Revenues (Expenses)	<u>(75)</u>	<u>(379,790)</u>	<u>(743,923)</u>	<u>(1,123,788)</u>
Income (Loss) before Contributions and Transfers	(4,198)	90,822	571,078	657,702
Capital Contributions	0	1,096,081	43,000	1,139,081
Transfers In	0	573,066	281,873	854,939
Transfers Out	0	(1,082,501)	0	(1,082,501)
Change in Net Assets	(4,198)	677,468	895,951	1,569,221
Net Assets Beginning of Year	<u>271,819</u>	<u>9,876,124</u>	<u>6,073,209</u>	<u>16,221,152</u>
Net Assets End of Year	<u>\$267,621</u>	<u>\$10,553,592</u>	<u>\$6,969,160</u>	<u>\$17,790,373</u>

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2001

	Sanitation	Sewer	Water	Total
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$786,261	\$2,919,733	\$3,563,965	\$7,269,959
Cash Payments for Personal Services	(179,679)	(719,239)	(808,542)	(1,707,460)
Cash Payments to Suppliers	(608,859)	(1,419,148)	(1,012,738)	(3,040,745)
Net Cash Provided by (Used for) Operating Activities	(2,277)	781,346	1,742,685	2,521,754
<u>Cash Flows from Noncapital Financing Activities</u>				
Other Expenses	0	(7,479)	0	(7,479)
Advances In	0	352,880	0	352,880
Advances Out	0	(503,803)	0	(503,803)
Transfers In	0	573,066	281,873	854,939
Transfers Out	0	(1,082,501)	0	(1,082,501)
Net Cash Provided by Noncapital Financing Activities	0	(667,837)	281,873	(385,964)
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on General Obligation Bonds	0	(112,650)	(142,350)	(255,000)
Interest Paid on General Obligation Bonds	0	(126,553)	(131,379)	(257,932)
Principal Paid on Mortgage Revenue Bonds	0	(260,000)	(290,000)	(550,000)
Interest Paid on Mortgage Revenue Bonds	0	(79,979)	(558,827)	(638,806)
Principal Paid on Bond Anticipation Notes	0	(5,200,570)	(3,169,300)	(8,369,870)
Interest Paid on Bond Anticipation Notes	0	(240,138)	(118,105)	(358,243)
Principal Paid on Capital Leases	(1,363)	(1,428)	(2,337)	(5,128)
Interest Paid on Capital Leases	(75)	(85)	(208)	(368)
Bond Anticipation Notes Issued	0	6,815,000	2,945,000	9,760,000
Proceeds From Sale of Fixed Assets	0	0	7,448	7,448
Acquisition of Fixed Assets	(15,535)	(83,933)	(297,947)	(397,415)
Net Cash Used for Capital and Related Financing Activities	(16,973)	709,664	(1,758,005)	(1,065,314)
<u>Cash Flows from Investing Activities</u>				
Interest	0	15,400	44,530	59,930
Net Cash Provided by Investing Activities	0	15,400	44,530	59,930
Net Increase (Decrease) in Cash and Cash Equivalents	(19,250)	838,573	311,083	1,130,406
Cash and Cash Equivalents Beginning of Year	176,014	1,929,186	2,033,943	4,139,143
Cash and Cash Equivalents End of Year	\$156,764	\$2,767,759	\$2,345,026	\$5,269,549

(continued)

City of Marysville
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2001
(continued)

	Sanitation	Sewer	Water	Total
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Operating Income (Loss)	(\$4,123)	\$470,612	\$1,315,001	\$1,781,490
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Depreciation	19,662	621,808	603,035	1,244,505
Changes in Assets and Liabilities:				
Increase in Accounts Receivable	(19,792)	(224,621)	(139,989)	(384,402)
(Increase) Decrease in Due from Other Governments	933	7,496	(48,001)	(39,572)
Decrease in Prepaid Items	2,377	6,816	3,481	12,674
Increase (Decrease) in Accounts Payable	3,301	(81,138)	(6,803)	(84,640)
Increase (Decrease) in Contracts Payable	0	113,413	(16,077)	97,336
Increase (Decrease) in Retainage Payable	0	(161,016)	5,969	(155,047)
Increase (Decrease) in Accrued Wages Payable	(687)	2,981	4,541	6,835
Increase in Due to Other Governments	900	6,946	1,871	9,717
Increase (Decrease) in Compensated Absences Payable	(4,848)	18,049	19,657	32,858
Net Cash Provided by (Used for) Operating Activities	<u>(\$2,277)</u>	<u>\$781,346</u>	<u>\$1,742,685</u>	<u>\$2,521,754</u>

Non-Cash Capital Transactions

During 2001, capital assets were constructed by developers, in the amount of \$1,139,081; \$1,096,081 and \$43,000 were donated to the Sewer and Water enterprise funds, respectively. These assets were capitalized and recorded as contributed capital in the Sewer and Water enterprise funds.

See Accompanying Notes to the Basic Financial Statements

City of Marysville
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2001

	<u>Union County Law Library</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,875</u>
<u>Liabilities:</u>	
Undistributed Assets	<u>\$4,875</u>
	<u>City of Marysville Municipal Court</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$148,938</u>
<u>Liabilities:</u>	
Undistributed Assets	<u>\$148,938</u>

See Accompanying Notes to the Basic Financial Statements

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**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001**

NOTE 1 - REPORTING ENTITY

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

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

Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Marysville in 2001.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Proprietary Funds

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

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

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

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

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

Fiduciary Funds

Fiduciary funds focus on net assets and changes in net assets. There are four categories of fiduciary funds; pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2001. The City's agency funds, which account for fees charged by the law library and municipal court operations, 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.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-Exchange Transactions

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

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

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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, 2001, but were levied to finance 2002 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 for the General Fund and at various levels for all other funds. City Council must approve any budget revisions that alter the appropriations at the legal level of budgetary control. Allocations to more detailed levels are made by the Finance Director. 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.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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 2001.

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 statements of budgetary comparisons reflect the first appropriated budget for each fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts in the statements of budgetary comparisons represent the final appropriation amounts passed during the year, including all amendments and modifications.

Lapsing of Appropriations

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

Encumbrances

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

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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, 2001.

Interest earnings are allocated to City funds according State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2001 was \$279,958, which includes \$183,217 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, 2001, 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
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets

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

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

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

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

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.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

M. Fund Balance Reserves

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

N. Net Assets

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

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

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Operating Revenues and Expenses

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

P. Capital Contributions

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

Q. Inter-fund Transactions

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

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during 2001.

S. Estimates

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

NOTE 3 – PRIOR PERIOD ADJUSTMENT

At December 31, 2000, the City reported Construction in Progress for the Governmental Funds of \$482,713. This project was for the installation of a sewer line associated with the Timber Trails Water and Sewer Line Project and should have been reported as an asset of the Business-Type Activities. This change required an adjustment of the beginning net assets of both the Governmental and Business-Type Activities as follows:

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 3 – PRIOR PERIOD ADJUSTMENT (continued)

	Net Assets Reported December 31, 2000	Adjustment	Net Assets Reported January 1, 2001
Governmental Activities	\$ 31,728,399	(482,713)	\$31,245,686
Business-Type Activities			
Sanitation Enterprise Fund	271,819	-	271,819
Sewer Enterprise Fund	9,393,411	482,713	9,876,124
Water Enterprise Fund	6,073,209	-	6,073,209
Total Business-Type Activities	15,738,439	482,713	16,221,152

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

Compliance

The following accounts had expenditures/expenses in excess of appropriations for the year ended December 31, 2001:

	<u>Appropriations</u>	<u>Expenditures/ Expenses</u>	<u>Excess</u>
General Fund			
Planning and Zoning/Personal Services	60,910	61,116	(206)
City Hall/Other	54,004	56,844	(2,840)
Civil Service/Personal Services	1,800	2,300	(500)
Finance/Other	193,066	195,270	(2,204)
Police/Contractual Services	36,438	38,089	(1,651)
Street Lighting/Other	20,000	39,514	(19,514)
Leisure Time Activities/Contractual Services	0	6,227	(6,227)
Parks and Recreation/Personal Services	17,500	17,665	(165)
Special Revenue Funds			
Police Pension			
Security of Persons & Property - Other	1,550	1,673	(123)
Fire Pension			
Security of Persons & Property - Other	1,550	1,673	(123)
Court Special Projects			
Security of Persons & Property – Other	50,000	60,034	(10,034)

The City did not encumber all commitments required by Ohio law. In addition, transfers in the amount of \$775,500 were made from the general fund to the debt service fund without authorization from City Council.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - 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	\$ (317,906)
<u>Increases (Decreases) Due To</u>	
Revenue Accruals	796,020
Expenditure Accruals	(530,113)
Cash Adjustments	
Unrecorded Activity 2000	860
Unrecorded Activity 2001	(2,540)
Prepaid Items	(64,915)
Advances In	556,894
Advances Out	(352,880)
Lease Principal Retirement	18,999
Encumbrances Outstanding	
At Year-End (Budget Basis)	<u>(450,051)</u>
Budget Basis	<u>\$ (345,632)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that City Council has identified as not required for use within the current two 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.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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).

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.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

At year-end, the City had \$2,540 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 \$148,590 and the bank balance was \$172,482. Of the bank balance, \$123,586 was covered by federal depository insurance and \$48,896 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category 1	Category 3	Carrying Value	Fair Value
Mutual Funds	0	0	1,796,520	1,796,520
Repurchase Agreements	0	1,683,346	1,683,346	1,683,346
City of Marysville Bonds	20,000	0	20,000	20,000
STAR Ohio	0	0	5,888,833	5,888,833
Total	20,000	1,683,346	9,388,699	9,388,699

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

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	9,539,829	
Cash on Hand	(2,540)	
Investments:		
Mutual Funds	(1,796,520)	1,796,520
Repurchase Agreements	(1,683,346)	1,683,346
City of Marysville Bonds	(20,000)	20,000
STAR Ohio	(5,888,833)	5,888,833
GASB Statement No. 3	148,590	9,388,699

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property tax revenues received in 2001 represent the collection of 2000 taxes. For 2001, real property taxes were levied after October 1, 2001, on the assessed values as of January 1, 2001, the lien date. These taxes will be collected in and are intended to finance 2002 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 2001 were levied after October 1, 2001, on the assessed values as of December 31, 2000. These taxes will be collected in and are intended to finance 2002 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 2001 (other than public utility property) represent the collection of 2001 taxes. For 2001, tangible personal property taxes were levied after October 1, 2000, on the true value as of December 31, 2000. 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, 2001, 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 2001 operations.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 7 - PROPERTY TAXES (continued)

The full tax rate for all City operations the year ended December 31, 2001, was \$4.50 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2001 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$ 144,410,160
Commercial/Industrial	69,567,060
Public Utility Real	77,560
Public Utility Personal	12,982,480
Tangible Personal	64,445,660
Total Assessed Value	\$ 291,482,920

NOTE 8 - MUNICIPAL INCOME TAXES

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

NOTE 9 - RECEIVABLES

Receivables at December 31, 2001, consisted of interest; taxes; accounts (billings for user charged services, including unbilled utility services); special assessments; inter-fund; and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund	
Estate Tax	\$ 194,132
State of Ohio	77,296
Local Government	196,484
Union County	12,712
DARE Grant	10,507
Total General Fund	491,131

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 9 - RECEIVABLES (continued)

Special Revenue Funds	
Police Pension	
State of Ohio	4,351
Fire Pension	
State of Ohio	4,351
Street Construction and Repair	
Gas Tax	140,464
Motor Vehicle License Tax	51,989
State Highway Improvement	
Gas Tax	10,614
Motor Vehicle License Tax	4,215
COPS Grant	
U.S. Department of Justice	<u>50,000</u>
Total Special Revenue Funds	<u>265,984</u>
Total Governmental Activities	<u>\$ 757,115</u>
Enterprise Funds	
Sewer	
Union County	48,043
Water	
Union County	<u>76,562</u>
Total Business-Type Activities	<u>\$ 124,605</u>
Total All Funds	<u><u>\$ 881,720</u></u>

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2001, was as follows:

	Balance at 12/31/00	Additions	Reductions	Balance at 12/31/01
Governmental Activities				
Land	677,539	-	-	677,539
Depreciable Capital Assets				
Buildings	3,188,309	50,889	-	3,239,198
Improvements Other Than Buildings	869,603	215,056	-	1,084,659
Computers and Computer Equipment	23,625	-	-	23,625
Furniture and Equipment	779,237	224,339	108,956	894,620
Vehicles	1,953,162	108,431	123,528	1,938,065
Infrastructure				
Bridges	310,428	-	-	310,428
Roads	62,082,954	112,786	-	62,195,740
Storm Sewers	2,909,297	23,000	-	2,932,297
Other	1,331,016	106,908	-	1,437,924
Construction in Progress	-	253,177	-	253,177
Total Depreciable Capital Assets	73,447,631	1,094,586	232,484	74,309,733
Total Capital Assets at Historical Cost	74,125,170	1,094,586	232,484	74,987,272
Less: Accumulated Depreciation				
Buildings	(1,053,652)	(77,734)	-	(1,131,386)
Improvements Other Than Buildings	(419,478)	(44,084)	-	(463,562)
Computers and Computer Equipment	(13,374)	(2,278)	-	(15,652)
Furniture and Equipment	(293,731)	(77,990)	57,398	(314,323)
Vehicles	(1,014,729)	(151,063)	99,629	(1,066,163)
Infrastructure				
Bridges	(60,402)	(3,932)	-	(64,334)
Roads	(34,313,551)	(1,553,484)	-	(35,867,035)
Storm Sewers	(284,893)	(73,020)	-	(357,913)
Other	(76,318)	(33,582)	-	(109,900)
Total Accumulated Depreciation	(37,530,128)	(2,017,167)	157,027	(39,390,268)
Depreciable Capital Assets, Net	35,917,503	(922,581)	75,457	34,919,465
Governmental Activities Capital Assets, Net	36,595,042	(922,581)	75,457	35,597,004

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 10 - CAPITAL ASSETS (continued)

	Balance at 12/31/00	Additions	Reductions	Balance at 12/31/01
Business-Type Activities				
Land	1,668,500	-	-	1,668,500
Depreciable Capital Assets				
Buildings	9,757,973	-	-	9,757,973
Improvements Other Than Buildings	-	15,535	-	15,535
Furniture and Equipment	431,378	-	-	431,378
Vehicles	743,282	49,165	14,835	777,612
Infrastructure				-
Sewer Lines	12,138,457	1,630,606	-	13,769,063
Water Lines	21,713,951	291,782	-	22,005,733
Construction in Progress	482,713	-	482,713	-
Total Depreciable Capital Assets at Historical Cost	<u>45,267,754</u>	<u>1,987,088</u>	<u>497,548</u>	<u>46,757,294</u>
Less: Accumulated Depreciation				
Buildings	(2,814,493)	(236,888)	-	(3,051,381)
Improvements Other Than Buildings	-	(194)	-	(194)
Furniture and Equipment	(217,958)	(47,021)	-	(264,979)
Vehicles	(377,771)	(57,746)	14,835	(420,682)
Infrastructure				
Sewer Lines	(2,448,317)	(347,991)	-	(2,796,308)
Water Lines	(3,532,513)	(554,665)	-	(4,087,178)
Total Accumulated Depreciation	<u>(9,391,052)</u>	<u>(1,244,505)</u>	<u>14,835</u>	<u>(10,620,722)</u>
Depreciable Capital Assets, Net	<u>35,876,702</u>	<u>742,583</u>	<u>482,713</u>	<u>36,136,572</u>
Business-Type Activities Capital Assets, Net	<u>37,545,202</u>	<u>742,583</u>	<u>482,713</u>	<u>37,805,072</u>

Depreciation expense was charged to governmental programs as follows:

General Government	\$ 94,482
Security of Persons and Property	
Police	30,084
Fire	82,945
Other	4,731
Public Health	47,371
Transportation	1,727,760
Community Environment	13,915
Leisure Time Activities	15,879
Total Depreciation Expense	<u>\$ 2,017,167</u>

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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	\$ 2,045,569	\$ 2,667,276
Cash and Cash Equivalents with Fiscal Agent	-	1,796,520
Accounts Receivable	13,436	-
Due From Other Governments	265,984	-
Prepaid Items	18,498	-
Property Taxes Receivable	176,676	-
Special Assessments Receivable	389,341	-
Total Restricted Assets	<u>2,909,504</u>	<u>4,463,796</u>
Less Liabilities Payable from Restricted Assets	<u>631,984</u>	<u>1,796,520</u>
Restricted Net Assets	<u><u>\$ 2,277,520</u></u>	<u><u>\$ 2,667,276</u></u>

NOTE 12 – INTER-FUND ASSETS/LIABILITIES

Inter-fund receivable/payables at December 31, 2001, were as follows:

	<u>Inter-fund</u>	
	<u>Receivable</u>	<u>Payable</u>
General Fund	<u>\$ 272,352</u>	<u>\$ 0</u>
Total Governmental Activities	<u>272,352</u>	<u>0</u>
Enterprise Fund		
Sewer	<u>0</u>	<u>272,352</u>
Total All Funds	<u><u>\$ 272,352</u></u>	<u><u>\$ 272,352</u></u>

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2001, the City contracted for the following insurance coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Buildings	\$ 8,795,091	\$ 1,000
Personal Property	3,827,587	1,000
Liability	2,000,000	-
Wrongful Acts	2,000,000	1,000
Law Enforcement	1,000,000	2,000
Automobile	2,000,000	-
Bond	Unlimited	-
Electronic Data Processing	25,000-100,000	-

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

NOTE 14 - CONTRACTUAL COMMITMENTS

At December 31, 2001, the City had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining on Contract</u>
Knight Electric	Headworks	\$ 11,125
R.B.Jergens	Timber Trails Water and Sewer Lines	126,556
Peterson Construction	Water Treatment Plant Improvements	285,593
Underground Utilities	MillCreek Water and Sewer Line	997,010
Badger Excavating	Public Service Center Improvements	238,366

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

The City contributes to the Public Employees Retirement System of Ohio (the "System"), a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Board. The System provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642. Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent; 9.25 percent was the portion used to fund pension obligations for 2001. 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, 2001, 2000, and 1999 were \$341,166, \$216,954, and \$266,094, respectively; 46 percent has been contributed for 2001 and 100 percent has been contributed for 2000 and 1999. The unpaid contribution for 2001, in the amount of \$183,309, is recorded as a liability.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police (12.25 percent was the portion used to fund pension obligations); and 24 percent for firefighters (16.75 percent was the portion used to fund pension obligations). Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2001, 2000, and 1999 were \$ 367,558, \$327,641 and \$284,387, respectively; 40 percent has been contributed for 2001 and 100 percent has been contributed for 2000 and 1999. The unpaid contribution for 2001, in the amount of \$216,307, is recorded as a liability.

NOTE 16 - POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (the "System") provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPB) 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 2001 employer contribution rate for local government employers was 13.55 percent of covered payroll; 4.3 percent was the portion used to fund health care for 2001. In 2000, the employer contribution rate was 10.84 percent of covered payroll; 4.3 percent was the portion used to fund health care.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 16 - POSTEMPLOYMENT BENEFITS (continued)

Benefits are advance funded using the entry age normal cost method (In 2000, the System returned to an actuarially prefunded disclosure because this provides a better presentation of the System's actual funding methodology. In prior years, the disclosure was based on a pay-as-you-go basis.). Significant actuarial assumptions include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually, and an additional increase in total payroll of .54 percent to 5.1 percent based on additional pay increases. Health care premiums were assumed to increase 4.75 percent annually. OPB are financed through employer contributions and investment earnings. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. At December 31, 2000, the total number of benefit recipients eligible for OPB through the System was 411,076. As of December 31, 2000, the actuarial value of net assets available for future OPB payments were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial liability were \$14,364.6 million and \$2,628.7 million, respectively. The City's actual contributions for 2001 which were used to fund OPB were \$ 158,596.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate was 19.5 percent of covered payroll and the firefighter employer contribution rate was 24 percent; 7.5 percent was the portion used to fund health care for 2001. The portion used to fund health care was 7.25 percent in 2000. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 for firefighters. The City's actual contributions for 2001 that were used to fund postemployment benefits were \$92,834 for police and \$96,684 for firefighters. The Fund's total health care expenses for the year ended December 31, 2000, (the latest information available) were \$106,160,054, which was net of member contributions of \$5,657,431.

NOTE 17 - COMPENSATED ABSENCES

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

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 17 - COMPENSATED ABSENCES (continued)

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

NOTE 18 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2001, were as follows:

	Interest Rate	Balance December 31, 2000	Additions	Reductions	Balance December 31, 2001
<u>Governmental Activities</u>					
2000 Various Improvement	4.47%	\$ 385,000	\$ 0	\$ 385,000	\$ 0
2000 Various Improvement	4.66%	969,430	0	969,430	0
2000 Vehicle and Equipment	4.61%	355,700	0	355,700	0
2000 Vehicle and Equipment	4.58%	30,000	0	30,000	0
2001 Vehicle and Equipment	3.66%	0	1,065,000	0	1,065,000
Total Governmental Activities		\$ 1,740,130	\$ 1,065,000	\$ 1,740,130	\$ 1,065,000
<u>Business-Type Activities</u>					
Sewer Fund					
2000 Vehicle and Equipment	4.58%	\$ 320,000	\$ 0	\$ 320,000	\$ 0
2000 Vehicle and Equipment	5.26%	200,000	0	200,000	0
2000 Sewer System	4.66%	4,680,570	0	4,680,570	0
2001 Sewer System	2.34%	0	6,815,000	0	6,815,000
Total Sewer Fund		5,200,570	6,815,000	5,200,570	6,815,000
Water Fund					
2000 Various Improvement	4.47%	1,300,000	0	1,300,000	0
2000 Vehicle and Equipment	4.61%	159,300	0	159,300	0
2000 Reservoir Acquisition	5.01%	1,645,000	0	1,645,000	0
2000 Sewer System	4.66%	65,000	0	65,000	0
2001 Various Improvement	3.51%	0	2,945,000	0	2,945,000
Total Water Fund		3,169,300	2,945,000	3,169,300	2,945,000
Total Business Type Activities		\$ 8,369,870	\$ 9,760,000	\$ 8,369,870	\$ 9,760,000

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 18 - NOTES PAYABLE (continued)

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

NOTE 19 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2001, was as follows:

	Balance December 31, 2000	Additions	Reductions	Balance December 31, 2001	Amounts Due in One Year
<u>Governmental Activities</u>					
General Obligation Bonds					
1986 Building Improvement - 7.38%	\$175,000	\$0	\$25,000	\$150,000	\$30,000
2000 Various Purpose	9,990,000	0	260,000	9,730,000	320,000
Total General Obligation Bonds	<u>10,165,000</u>	<u>0</u>	<u>285,000</u>	<u>9,880,000</u>	<u>350,000</u>
Special Assessment Bonds					
1995 Special Assessment - 6.50%	25,000	0	5,000	20,000	5,000
Other Long-Term Obligations					
Compensated Absences Payable	442,888	530,852	442,888	530,852	277,166
Capital Leases Payable	59,824	0	19,064	40,760	16,962
Total Other Long-Term Obligations	<u>502,712</u>	<u>530,852</u>	<u>461,952</u>	<u>571,612</u>	<u>294,128</u>
Total Governmental Activities	<u>\$10,692,712</u>	<u>\$530,852</u>	<u>\$751,952</u>	<u>\$10,471,612</u>	<u>\$649,128</u>

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

	Balance December 31,			Balance	Amounts
	2000	Additions	Reductions	December 31, 2001	Due in One Year
<u>Business-Type Activities</u>					
General Obligation Bonds					
1992 Sewer System Improvement – 6.70-7.15%	\$980,000	\$0	\$60,000	\$920,000	\$65,000
1994 Various Improvement – 4.50-5.55%	3,515,000	0	195,000	3,320,000	205,000
Total General Obligation Bonds	4,495,000	0	255,000	4,240,000	270,000
Mortgage Revenue Bonds					
1988 Sewer System Mort Rev	590,000	0	55,000	535,000	60,000
1992 Sewer System Mort Rev	660,000	0	205,000	455,000	220,000
1993 Water System Mortgage Rev	10,575,000	0	290,000	10,285,000	305,000
Total Mortgage Revenue Bonds	11,825,000	0	550,000	11,275,000	585,000
Other Long-Term Obligations					
Compensated Absences Payable	119,305	152,163	119,305	152,163	101,733
Capital Leases Payable	11,178	0	5,128	6,050	4,316
Total Other Long-Term Obligations	130,483	152,163	124,433	158,213	106,049
Total Business-Type Activities	<u>\$16,450,483</u>	<u>\$152,163</u>	<u>\$929,433</u>	<u>\$15,673,213</u>	<u>\$961,049</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.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Compensated Absences Payable

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

Capital Leases Payable

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

Business-Type Activities General Obligation Bonds

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

1992 Sewer System Improvement

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

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

1994 Various Improvement

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

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

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Mortgage Revenue Bonds

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

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

Restricted Assets Held by City	
Sewer Replacement and Improvement	\$ 1,477,444
Sewer Reserve	194,431
Sewer Construction	174,801
Water Replacement and Improvement	762,267
Water System Reserve	58,333

1988 Sewer System First Mortgage Revenue Bonds

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

Fund assets, whose use are restricted under the bond indenture, are presented as restricted assets on the statement of net assets. Restricted assets relating to the sewer mortgage revenue bonds at December 31, 2001, were as follows:

Restricted Assets Held by the Trustee	
Mortgage Revenue Bond Current Debt Service	\$ 65,327
Mortgage Revenue Bond Future Debt Service	101,155
Mortgage Revenue Bond Replacement and Improvement	301,164

1992 Sewer System First Mortgage Revenue Refunding Bonds

The Sewer System Mortgage Revenue Refunding mortgage revenue bonds are not subject to redemption either optional or mandatory prior to stated maturity.

Fund assets, whose use are restricted under the bond indenture, are presented as restricted assets on the statement of net assets. Restricted assets relating to the sewer mortgage revenue bonds at December 31, 2001, were as follows:

Restricted Assets Held by the Trustee	
Mortgage Revenue Bond Current Debt Service	\$ 196,016
Mortgage Revenue Bond Future Debt Service	177,911

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

The Sewer System refunding bonds defeased in-substance \$2,020,902 in sewer system mortgage revenue bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the City's financial statements. As of December 31, 2001, this debt had been fully retired.

1993 Water System Mortgage Revenue Refunding Bonds

The Water System Mortgage Revenue Refunding mortgage revenue bonds include serial and term bonds. The term bonds have annual mandatory sinking fund redemption requirements and there are optional redemption provisions for the serial bonds. The term bonds mature on December 1, 2013, through December 1, 2021, in the amount of \$7,810,000, at a redemption price equal to 100 percent of the principal plus accrued interest to the redemption date. The serial bonds maturing on or after December 1, 2003, are subject to early redemption, at the sole option of the City, either in whole on any date or in part on any interest payment date, on or after December 1, 2003, in multiples of \$5,000, at the following redemption prices plus accrued interest:

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

Fund assets, whose use are restricted under the bond indenture, are presented as restricted assets on the statement of net assets. Restricted assets relating to the water mortgage revenue bonds at December 31, 2000, were as follows:

<u>Restricted Assets Held by the Trustee</u>	
Mortgage Revenue Bond Current Debt Service	\$ 107,512
Mortgage Revenue Bond Future Debt Service	847,435

The Water System refunding bonds defeased in-substance \$11,660,718 in water system mortgage revenue bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the City's financial statements. As of December 31, 2001, this debt had been fully retired.

The City's overall legal debt margin was \$23,242,823 at December 31, 2001.

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire general obligation bonds, special assessment bonds, and mortgage revenue bonds at December 31, 2001, were as follows:

Year	Governmental Activities General Obligation Bonds				Business-Type Activities General Obligation Bonds			
	1986 Building Improvement		2000 Various Improvement		1992 Sewer System Improvement		1994 Various Improvement	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$30,000	\$11,063	\$320,000	\$500,030	\$65,000	\$65,780	\$205,000	\$178,502
2003	30,000	8,850	335,000	484,030	70,000	61,132	215,000	168,663
2004	30,000	6,638	350,000	467,280	75,000	56,128	225,000	158,127
2005	30,000	4,425	370,000	449,780	80,000	50,765	240,000	146,878
2006	30,000	2,213	385,000	431,280	85,000	45,045	250,000	134,517
2007-2011	0	0	2,235,000	1,847,400	545,000	122,265	1,475,000	450,938
2012-2016	0	0	2,860,000	1,227,610	0	0	710,000	59,663
2017-2021	0	0	2,875,000	396,615	0	0	0	0
Totals	\$150,000	\$33,189	\$9,730,000	\$5,804,025	\$920,000	\$401,115	\$3,320,000	\$1,297,288

Governmental Activities Special Assessment Bonds		
1995 Jordan Assessment		
Year	Principal	Interest
2002	\$ 5,000	\$ 1,300
2003	5,000	975
2004	5,000	650
2005	5,000	325
Totals	\$ 20,000	\$ 3,250

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Year	Business-Type Activities Mortgage Revenue Bonds					
	1988 Sewer System First Mortgage Revenue		1992 Sewer System First Mortgage Revenue		1993 Water System Mortgage Revenue Refunding	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 60,000	\$ 41,998	\$ 220,000	\$ 14,560	\$ 305,000	\$ 541,172
2003	65,000	37,287	235,000	7,638	320,000	526,686
2004	70,000	32,185	0	0	335,000	511,325
2005	75,000	26,690	0	0	350,000	494,910
2006	80,000	20,803	0	0	370,000	477,235
2007-2011	185,000	22,010	0	0	2,155,000	2,071,540
2012-2016	0	0	0	0	2,805,000	1,422,085
2017-2021	0	0	0	0	3,645,000	575,675
Totals	<u>\$ 535,000</u>	<u>\$ 180,973</u>	<u>\$ 455,000</u>	<u>\$ 22,198</u>	<u>\$ 10,285,000</u>	<u>\$ 6,620,628</u>

NOTE 20 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Capital Outlay" and "Inception of Capital Lease" in the funds making the lease payments. Capital lease payments are reflected as debt service expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the governmental funds. Capital lease payments are reflected as a reduction of the liability for the enterprise funds. Assets, consisting of equipment, have been capitalized, in the amount of \$103,190 in the governmental funds and \$24,447 in the enterprise funds. These amounts represent the present value of the minimum lease payments at the time of acquisition. Principal payments in 2001 were \$19,064 and \$5,128, in governmental and enterprise funds, respectively.

	Governmental Activities	Business-Type Activities
Property under Capital Lease	\$103,190	\$24,447
Less Accumulated Depreciation	(64,170)	(18,884)
Total December 31, 2001	<u>\$39,020</u>	<u>\$5,563</u>

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 20 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2001.

Year	Governmental Activities	Business-Type Activities
2002	\$ 18,500	\$ 4,550
2003	10,642	1,182
2004	9,917	456
2005	4,167	0
Total	43,226	6,188
Less Amount Representing Interest	(2,466)	(138)
Present Value of Net Minimum Lease Payments	\$ 40,760	\$ 6,050

NOTE 21 - JOINTLY GOVERNED ORGANIZATIONS

LUC Regional Planning Commission

The City of Marysville participates in the LUC Regional Planning Commission (the Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among Champaign, Logan, and Union Counties, and the Cities of Bellefontaine, Marysville, and Urbana. Each member's control over the operation of the Commission is limited to its representation on the Board. The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions, and services of the entities involved. As of December 31, 2001 the City has withdrawn from membership in the LUC Regional Planning Commission. This change will become effective in November, 2002.

Marysville/Union County Joint Recreation District

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

Union County Community Improvement Corporation

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

**CITY OF MARYSVILLE
UNION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 22 - CONTINGENT LIABILITIES

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

For the period January 1, 2001, to December 31, 2001, the City received state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 23 - SUBSEQUENT EVENTS

On January 24, 2002, the City issued general obligation notes, in the amount of \$3,370,000, to retire notes previously issued, in the amount of \$3,370,000, for various improvements. The notes have an interest rate of 2.08 percent and matured on April 25, 2002.

On March 15, 2002, the City issued general obligation notes, in the amount of \$950,000, to retire notes previously issued, in the amount of \$1,065,000, for various improvements. The notes have an interest rate of 2.02 percent and mature on March 14, 2002.

On April 18, 2002, the City issued mortgage revenue bonds, in the amount of \$3,820,000, to retire notes previously issued, in the amount of \$3,370,000, for various improvements as well as providing for some additional water system improvements. The bonds are dated April 1, 2002 and have a final maturity date of December 1, 2022. The bonds have coupon rate between 2.4-5.1 percent with an average coupon of 4.829%.

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

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

To the Members of City Council:

We have audited the financial statements of the City of Marysville, Union County, Ohio, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated October 7, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-20680-001 through 2001-20680-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated October 7, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the City in a separate letter dated October 7, 2002.

City of Marysville
Union County
Report of Independent Accountants on Compliance and on
Internal Control Required by Government Auditing Standards
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

JIM PETRO
Auditor of State

October 7, 2002

**CITY OF MARYSVILLE
UNION COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2001-20680-001
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Finding For Recovery – Severance Overpayment

Section 4 of City of Marysville Ordinance 18-98, which amended the Employee Personnel Policy, established that employees retiring under a State regulated retirement system shall receive payment of accrued but unused sick leave on the basis of one hour's pay for each four hours of accrued sick leave, not to exceed two hundred forty hours of payment. The City improperly paid employee Kenneth Nicol severance pay for 160 hours in excess of the 240 maximum allowable hours; this resulted in an overpayment of \$4,356.80.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Kenneth Nicol, and in favor of the general fund of the City of Marysville, in the amount of four thousand three hundred fifty-six dollars and eighty cents.

This expenditure occurred when John Morehart was the City Finance Director. Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co., 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No 80-074: Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials who have control over public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost, or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

Accordingly, a Finding for Recovery is hereby issued against John Morehart, City Finance Director, and Employers Mutual Casualty Company, jointly and severally, and in favor of the general fund of the City of Marysville, in the amount of four thousand three hundred fifty-six dollars and eighty cents. John Morehart shall be secondarily liable for such illegal expenditure to the extent that recovery or restitution is not obtained from Kenneth Nicol.

Finding Number	2001-20680-002
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Finding Repaid Under Audit – Law Library Underpayment

Receipts provided from the Marysville Municipal Court to the City of Marysville to be paid to the Union County Law Library totaled \$3,326.25 more than the amount actually remitted to the Law Library by the City. Ohio Rev. Code Section 9.39 states all "public officials are liable for all public money received or collected by them or by their subordinates under color of office."

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for monies collected but not accounted for is hereby issued against the general fund of the City of Marysville, and in favor of the Union County Law Library, in the amount of three thousand three hundred twenty-six dollars and twenty five cents.

On September 30, 2002, the City repaid the Union County Law Library the full amount of \$3,326.25.

**CITY OF MARYSVILLE
UNION COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

Finding Number	2001-20680-003
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Certification of Expenditures

Ohio Rev. Code Section 5705.41(D) states in part that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such a purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Further, contracts and orders for expenditures lacking prior certification should be considered null and void.

This section also provides two "exceptions" to the above requirements:

- Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the City Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from receipt of such certificate, if such expenditure is otherwise valid.
- If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the City Council.

Seventy percent of transactions tested were not certified prior to the commitment being incurred, nor were they certified using a Then-and-Now certification. This procedure is not only required by Ohio law but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of the City funds being over expended or exceeding budgetary spending limitations.

Finding Number	2001-20680-004
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Contract Approval

City Charter Section 10.11 states the Director of Administration may, within the amounts and items appropriated by Council, make purchases and enter into contracts on behalf of the City involving expenditures not in excess of the maximum amount permissible without competitive bidding as provided by the Revised Code Section 735.05, as amended. The Board of Control shall have jurisdiction of the award of all contracts in excess of the amounts under the jurisdiction of the Director of Administration. All purchases, advertising, and bidding procedures shall be directed and administered by the Board of Controls and shall be in accordance with general law.

The City entered into a contract with Badger Excavating in the amount of \$413,700 for public service center improvements without prior approval from the Board of Control. The Board of Control did subsequently approve the contract in February 2002.

**CITY OF MARYSVILLE
UNION COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

Finding Number	2001-20680-005
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Transfers

Ohio Rev. Code Section 5705.14 requires approval of fund transfers by resolution of the taxing authority with the affirmative vote of two-thirds of the members.

Transfers in the amount of \$775,500 were made from the general fund to the debt service fund without authorization from the City Council. We recommend fund transfers be made only by authorization of the City Council.

**CITY OF MARYSVILLE
UNION COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u>; <i>Explain</i>:
2000-20680-001	Appropriations exceeded estimated resources.	Yes	Fully corrected.
2000-20680-002	Transfers were not approved by Council.	No	A citation is included in the 2001 audit report.
2000-20680-003	Expenditures exceeded appropriations.	No	Partially corrected. A citation is included in the 2001 management letter.



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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
NOVEMBER 7, 2002**