

**CITY OF ST. MARYS  
AUGLAIZE COUNTY, OHIO**

*Basic  
Financial Statements*  
(Audited)

For The Year Ended  
December 31, 2004

**DOUGLAS M. RIESEN, CITY AUDITOR**





**Auditor of State  
Betty Montgomery**

Mayor and Members of Council  
City of St. Marys  
101 East Spring Street St.  
Marys, Ohio 45885

We have reviewed the Independent Auditor's Report of the City of St. Marys, Auglaize County, prepared by Julian & Grube, Inc., for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

August 11, 2005

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**CITY OF ST. MARYS  
AUGLAIZE COUNTY, OHIO**

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# JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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## Independent Auditor's Report

Mayor and Members of Council  
City of St. Marys  
101 East Spring Street  
St. Marys, OH 45885

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of St. Marys, Auglaize County, Ohio, (the “City”) as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys, Auglaize County, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund 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 a report dated June 17, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management’s discussion and analysis on pages 3 through 18 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.



Julian & Grube, Inc.  
June 17, 2005

## CITY OF ST. MARYS, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004 UNAUDITED

The discussion and analysis of the City of St. Marys (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

#### Financial Highlights

Key financial highlights for 2004 are as follows:

- The total net assets of the City increased \$1,245,741. Net assets of governmental activities increased \$1,244,294 or 4.66% over 2003 and net assets of business-type activities increased \$1,447 or 0.01% from 2003.
- General revenues accounted for \$5,843,018 of total governmental activities revenue. Program specific revenues accounted for \$1,124,001 or 16.13% of total governmental activities revenue.
- The City had \$4,905,022 in expenses related to governmental activities; \$1,124,001 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,781,021 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,843,018.
- The general fund had revenues of \$4,740,112 in 2004. This represents an increase of \$150,035 from 2003 revenues. The expenditures of the general fund, which totaled \$2,821,014 in 2004, decreased \$354,686 from 2003. The net decrease in fund balance for the general fund was \$45,733 or 1.08%.
- The voted income tax fund had revenues of \$1,286,505 in 2004. This represents a decrease of \$548,213 from 2003 revenues. The expenditures of the voted income tax fund, which totaled \$1,460,494 in 2004, increased \$218,699 from 2003. The net decrease in fund balance for the voted income tax fund was \$173,989 or 5.83%.
- The recreational facility construction fund had no revenue in 2004. This represents a decrease of \$6,060 from 2003 revenues. The expenditures of the recreational facility construction fund, which totaled \$14,917 in 2004, decreased \$2,194,139 from 2003. The net increase in fund balance for the recreational facility construction fund was \$250,000 or 26.11%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, Electric and Refuse enterprise funds, increased in 2004 by \$1,447. This increase in net assets was due primarily to operating income and an increase in transfers.
- In the general fund, the actual revenues came in \$11,173 higher than they were in the final budget and actual expenditures were \$1,056,937 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues were the same in the original and the final budget. Budgeted expenditures increased \$27,800 from the original to the final budget as a result of an anticipated increase in wages and benefits.

#### Using this Annual Financial Report

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

## CITY OF ST. MARYS, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004 UNAUDITED

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 finances. 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 remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

#### **Reporting the City as a Whole**

##### *Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net *assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

**Governmental Activities** - Most of the City's programs and services are reported here including police, fire, street and highway maintenance, capital improvements, community and economic development and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

**Business-type Activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water, sewer, electric and refuse operations are reported here.

#### **Reporting the City's Most Significant Funds**

##### *Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.



**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, the Voted Income Tax fund and the recreational facility construction fund. The Voted Income Tax fund represents a 0.5% income tax levy earmarked for safety capital improvements. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 23 - 27 of this report.

***Proprietary Funds***

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric, and refuse functions. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 28 - 35 of this report.

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 36 of this report.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 37 - 72 of this report.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

**Government-Wide Financial Analysis**

This is the City's second year for government-wide financial statements using the full accrual basis of accounting.

The table below provides a summary of the City's net assets for 2004 and 2003:

	<b>Net Assets</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<u>Assets</u>						
Current and other assets	\$ 14,609,564	\$ 14,186,774	\$ 12,820,384	\$ 15,840,575	\$ 27,429,948	\$ 30,027,349
Capital assets	<u>15,683,708</u>	<u>13,706,949</u>	<u>18,985,669</u>	<u>19,698,134</u>	<u>34,669,377</u>	<u>33,405,083</u>
Total assets	<u>30,293,272</u>	<u>27,893,723</u>	<u>31,806,053</u>	<u>35,538,709</u>	<u>62,099,325</u>	<u>63,432,432</u>
<u>Liabilities</u>						
Long-term liabilities	1,790,075	508,475	4,556,718	11,003,896	6,346,793	11,512,371
Other liabilities	<u>543,677</u>	<u>1,879,078</u>	<u>7,445,779</u>	<u>4,732,704</u>	<u>7,989,456</u>	<u>6,611,782</u>
Total liabilities	<u>2,333,752</u>	<u>2,387,553</u>	<u>12,002,497</u>	<u>15,736,600</u>	<u>14,336,249</u>	<u>18,124,153</u>
<u>Net Assets</u>						
Invested capital assets, net of related debt	14,477,708	12,318,639	11,917,402	11,121,705	26,395,110	23,440,344
Restricted	7,880,346	8,261,308	1,999,372	6,342,247	9,879,718	14,603,555
Unrestricted	<u>5,601,466</u>	<u>4,926,223</u>	<u>5,886,782</u>	<u>2,338,157</u>	<u>11,488,248</u>	<u>7,264,380</u>
Total net assets	<u>\$ 27,959,520</u>	<u>\$ 25,506,170</u>	<u>\$ 19,803,556</u>	<u>\$ 19,802,109</u>	<u>\$ 47,763,076</u>	<u>\$ 45,308,279</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$46,763,076. At year-end, net assets were \$27,959,520 and \$19,803,556 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 51.77% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$14,477,708 and \$11,917,402 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2004, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

A portion of the City's net assets, \$9,879,718, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$5,548,966 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2004 and 2003.

	<b>Net Assets</b>					
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 614,766	\$ 857,159	\$13,764,293	\$13,309,548	\$14,379,059	\$14,166,707
Operating grants and contributions	327,731	263,448	-	-	327,731	263,448
Capital grants and contributions	181,504	664,080	-	-	181,504	664,080
<b>Total program revenues</b>	<u>1,124,001</u>	<u>1,784,687</u>	<u>13,764,293</u>	<u>13,309,548</u>	<u>14,888,294</u>	<u>15,094,235</u>
General revenues:						
Property taxes	1,161,644	1,150,689	-	-	1,161,644	1,150,689
Income taxes	3,786,476	3,726,387	-	-	3,786,476	3,726,387
Other local taxes	-	-	-	20,068	-	20,068
Unrestricted grants	547,871	533,905	-	-	547,871	533,905
Interest	249,624	197,759	185,446	57,570	435,070	255,329
Miscellaneous	97,403	126,423	233,814	171,838	331,217	298,261
<b>Total general revenues</b>	<u>5,843,018</u>	<u>5,735,163</u>	<u>419,260</u>	<u>249,476</u>	<u>6,262,278</u>	<u>5,984,639</u>
<b>Total revenues</b>	<u>6,967,019</u>	<u>7,519,850</u>	<u>14,183,553</u>	<u>13,559,024</u>	<u>21,150,572</u>	<u>21,078,874</u>
Expenses:						
General government	711,894	834,897	-	-	711,894	834,897
Security of persons and property	2,135,807	2,111,084	-	-	2,135,807	2,111,084
Public health and welfare	18,236	10,477	-	-	18,236	10,477
Transportation	1,613,609	1,340,325	-	-	1,613,609	1,340,325
Community environment	24,462	25,837	-	-	24,462	25,837
Leisure time activity	356,275	305,200	-	-	356,275	305,200
Interest and fiscal charges	44,739	37,280	-	-	44,739	37,280
Water	-	-	1,184,213	1,065,797	1,184,213	1,065,797
Sewer	-	-	1,065,927	1,082,730	1,065,927	1,082,730
Electric	-	-	12,048,934	10,563,081	12,048,934	10,563,081
Refuse	-	-	700,735	1,411,210	700,735	1,411,210
<b>Total expenses</b>	<u>4,905,022</u>	<u>4,665,100</u>	<u>14,999,809</u>	<u>14,122,818</u>	<u>19,904,831</u>	<u>18,787,918</u>
Increase (decrease) in net assets before transfers	2,061,997	2,854,750	(816,256)	(563,794)	1,245,741	2,290,956
Transfers	<u>(817,703)</u>	<u>(770,450)</u>	<u>817,703</u>	<u>770,450</u>	<u>-</u>	<u>-</u>
<b>Change in net assets</b>	<u>\$ 1,244,294</u>	<u>\$ 2,084,300</u>	<u>\$ 1,447</u>	<u>\$ 206,656</u>	<u>\$ 1,245,741</u>	<u>\$ 2,290,956</u>

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED

**Governmental Activities**

Governmental activities net assets increased \$1,244,294 in 2004. This increase is the result of a decrease in expenses due to the City's conservative budgeting.

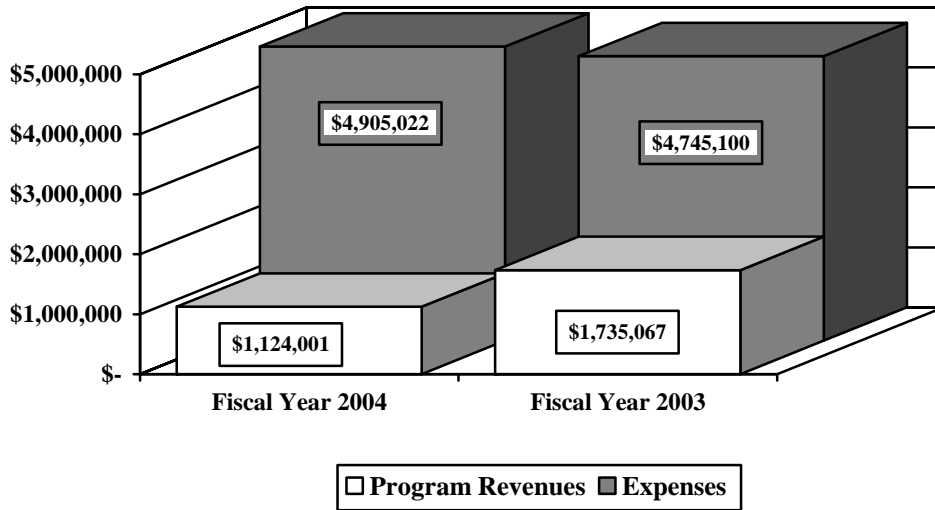
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$2,135,807 of the total expenses of the City. These expenses were partially funded by \$16,717 in direct charges to users of the services. Transportation expenses totaled \$1,613,609. Transportation expenses were partially funded by \$7,608 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$327,731 in operating grants and contributions and \$181,504 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$320,735, subsidized transportation programs, and \$6,996 subsidized security of persons and property. Of the total capital grants and contributions, \$148,469, subsidized transportation programs.

General revenues totaled \$5,843,018, and amounted to 83.87% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,948,120. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$547,871.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

**Governmental Activities - Program Revenues vs. Total Expenses**



**CITY OF ST. MARYS, OHIO**

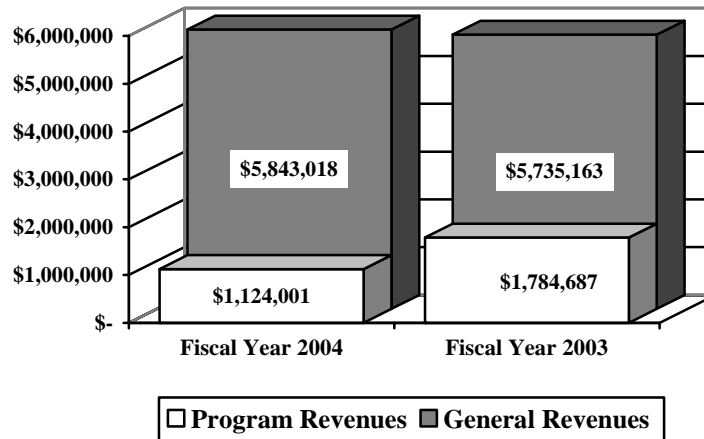
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

**Governmental Activities**

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program expenses:				
General government	\$ 711,894	\$ 396,136	\$ 834,897	\$ 563,878
Security of persons and property	2,135,807	2,112,094	2,111,084	2,088,426
Public health and welfare	18,236	(53,375)	10,477	(79,234)
Transportation	1,613,609	1,136,797	1,340,325	412,110
Community environment	24,462	8,373	25,837	14,668
Leisure time activity	356,275	270,489	305,200	237,616
Interest and fiscal charges	<u>44,739</u>	<u>(89,493)</u>	<u>37,280</u>	<u>(357,051)</u>
 Total expenses	 <u>\$ 4,905,022</u>	 <u>\$ 3,781,021</u>	 <u>\$ 4,665,100</u>	 <u>\$ 2,880,413</u>

The dependence upon general revenues for governmental activities is apparent, with 77.08% of expenses supported through taxes and other general revenues.

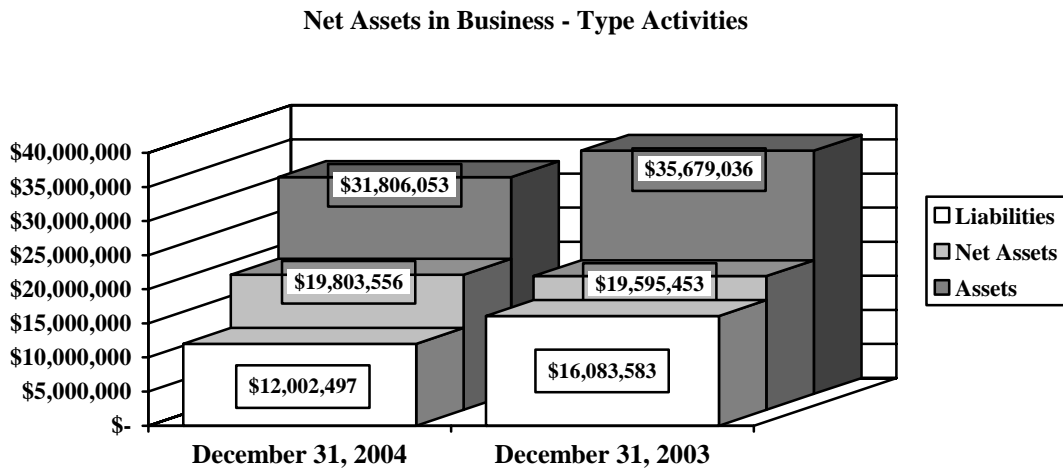
**Governmental Activities - General and Program Revenues**



**CITY OF ST. MARYS, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**  
**UNAUDITED**

**Business-Type Activities**

Business-type activities include the water, sewer, electric and refuse enterprise funds. These programs had program revenues of \$13,764,293, general revenues of \$419,260 and expenses of \$14,999,809 for 2004. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 23) reported a combined fund balance of \$11,598,233 which is \$419,988 higher than last year's total of \$11,178,245. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 for all major and nonmajor governmental funds.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

	<u>Fund Balances</u> <u>12/31/04</u>	<u>Fund Balances</u> <u>12/31/03</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 4,193,757	\$ 4,239,490	\$ (45,733)
Voted income tax	2,811,278	2,985,267	(173,989)
Recreational Facility Construction	(707,549)	(957,549)	250,000
Other Nonmajor Governmental Funds	<u>5,300,747</u>	<u>4,911,037</u>	<u>389,710</u>
 Total	 <u>\$ 11,598,233</u>	 <u>\$ 11,178,245</u>	 <u>\$ 419,988</u>

***General Fund***

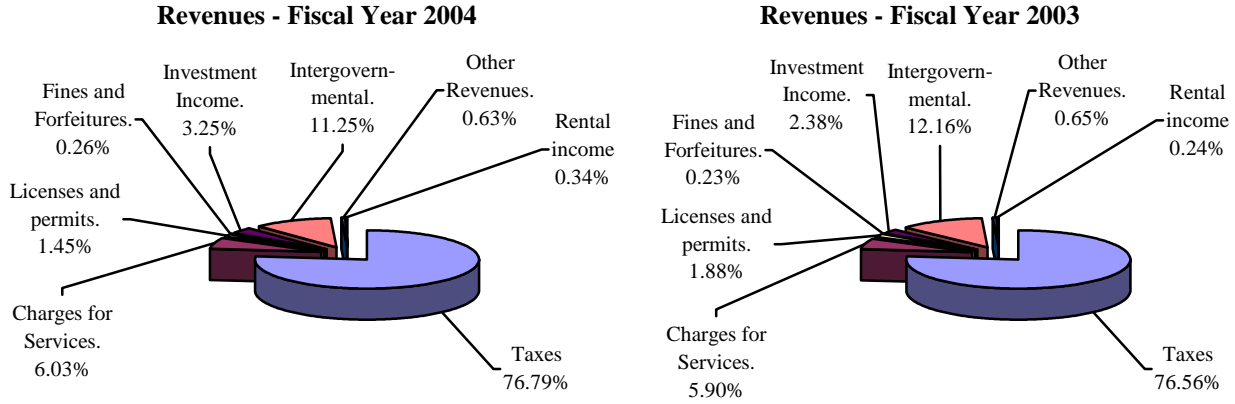
The City's general fund balance decreased \$45,733, primarily due to the net effect of an increase in revenues, a decrease in expenses, and an increase in transfers out. The table that follows assists in illustrating the revenues of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 3,639,922	\$ 3,513,747	3.59 %
Charges for services	285,758	271,019	5.44 %
Licenses and permits	68,576	86,389	(20.62) %
Fines and forfeitures	12,377	10,486	18.03 %
Investment income	154,214	109,389	40.98 %
Rental income	16,089	11,169	44.05 %
Intergovernmental	533,270	558,247	(4.47) %
Other	<u>29,906</u>	<u>29,631</u>	0.93 %
 Total	 <u>\$ 4,740,112</u>	 <u>\$ 4,590,077</u>	 3.27 %

Tax revenues increased \$126,175 or 3.59% from the prior year. This increase is attributed to an increase in both income tax revenues and property tax revenues. The increase in investment income is due to higher interest rates available to the City on monies held in depository and investment accounts. All other revenues remained comparable to 2003.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**



The table that follows assists in illustrating the expenditures of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percent</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 673,202	\$ 760,000	(11.42) %
Security of person and property	1,943,689	1,923,731	1.04 %
Public health and welfare	17,522	10,477	67.24 %
Community environment	20,384	7,985	155.28 %
Leisure time activity	166,217	200,446	(17.08) %
Debt Service	-	273,061	(100.00) %
<b>Total</b>	<b><u>\$ 2,821,014</u></b>	<b><u>\$ 3,175,700</u></b>	<b>(11.17) %</b>

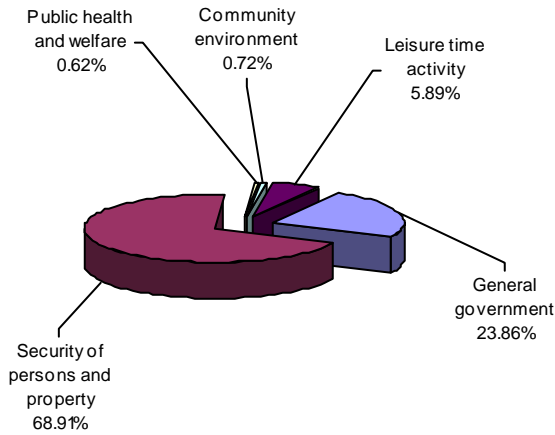
General government expenditures decreased by \$86,798 or 11.42%. This decrease is attributed to a decrease in accrued wages and benefits. The decrease in debt service is due to the City making principal and interest payments on its general obligation note out of the General fund in fiscal 2003 and out of the Recreational Facility fund in fiscal 2004. All other expenditures remained comparable to 2003.



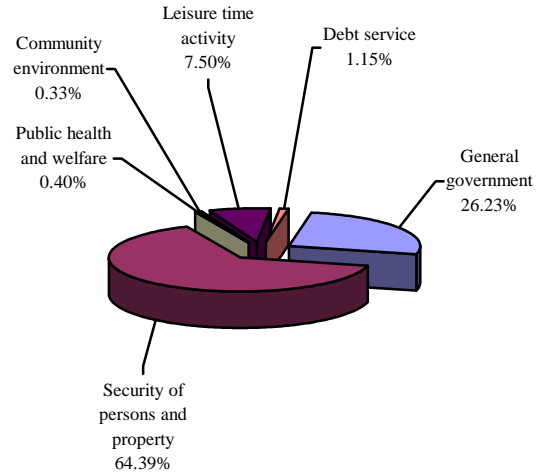
**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

**Expenditures - Fiscal Year 2004**



**Expenditures - Fiscal Year 2003**



***Voted Income Tax Fund***

The voted income tax fund had revenues of \$1,286,505 in 2004. This represents a decrease of \$548,213 from 2003 revenues. The expenditures of the voted income tax fund, which totaled \$1,460,494 in 2004, increased \$218,699 from 2003. The net decrease in fund balance for the voted income tax fund was \$173,989 or 5.83%.

***Recreational Facility Construction Fund***

The recreational facility construction fund had no revenue in 2004. This represents a decrease of \$6,060 from 2003 revenues. The expenditures of the recreational facility construction fund, which totaled \$14,917 in 2004, decreased \$2,194,139 from 2003. The net increase in fund balance for the recreational facility construction fund was \$250,000 or 26.11%.

***Budgeting Highlights - General Fund***

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund. In the general fund one of the most significant changes was between the original and final budgeted amount in the area of expenditures and other financing uses, which increased \$27,800 from \$8,897,216 to \$8,925,016. Actual revenues of \$7,619,920 increased from the final budgeted revenues by \$11,173. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures and other financing uses came in \$1,056,937 lower than the final budgeted amounts.

**CITY OF ST. MARYS, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**  
**UNAUDITED**

***Proprietary Funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

***Water Fund***

The water fund had operating revenues of \$1,240,299 in 2004. This represents a decrease of \$5,759 from 2003 operating revenues. The operating expenses of the water fund, which totaled \$1,098,920 in 2004, increased \$74,588 from 2003. The increase in net assets for the water fund was \$92,427 or 1.54%.

***Sewer Fund***

The sewer fund had operating revenues of \$1,303,581 in 2004. This represents a decrease of \$59,818 from 2003 operating revenues. The operating expenses of the sewer fund, which totaled \$940,916 in 2004, decreased \$23,600 from 2003. The increase in net assets for the sewer fund was \$271,180 or 5.54%.

***Electric Fund***

The electric fund had operating revenues of \$10,579,301 in 2004. This represents an increase of \$614,392 from 2003 operating revenues. The operating expenses of the electric fund, which totaled \$11,160,756 in 2004, increased \$974,333 from 2003. The decrease in net assets for the electric fund was \$449,041 or 4.14%.

***Refuse Fund***

The refuse fund had operating revenues of \$874,926 in 2004. This represents a decrease of \$32,094 from 2003 operating revenues. The operating expenses of the refuse fund, which totaled \$650,114 in 2004, decreased \$761,781 from 2003. The increase in net assets for the refuse fund was \$254,185 or 12.55%.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

**Capital Assets and Debt Administration**

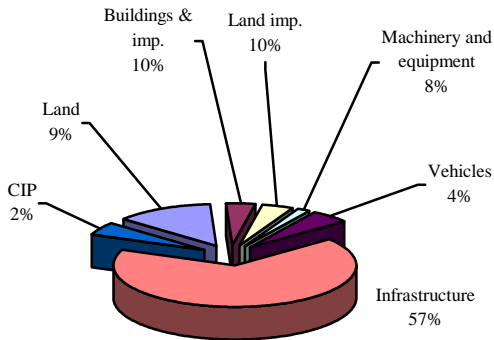
**Capital Assets**

At the end of fiscal 2004, the City had \$33,532,907 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. Of this total, \$14,547,238 was reported in governmental activities and \$18,985,669 was reported in business-type activities. The following table shows fiscal 2004 balances compared to 2003:

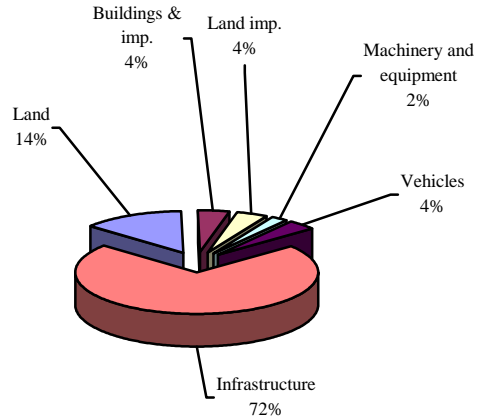
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 1,881,561	\$ 1,851,561	\$ 1,194,470	\$ 1,194,470	\$ 3,076,031	\$ 3,046,031
Buildings and improvements	1,732,257	600,090	1,759,080	1,886,542	3,491,337	2,486,632
Land improvements	580,369	550,423	3,052,018	3,229,356	3,632,387	3,779,779
Machinery and equipment	246,642	300,100	2,510,763	2,627,248	2,757,405	2,927,348
Vehicles	787,948	540,184	484,227	614,811	1,272,175	1,154,995
Infrastructure	9,711,866	9,864,591	9,985,111	10,145,707	19,696,977	20,010,298
Construction in progress	743,065	-	-	-	743,065	-
<b>Total</b>	<b>\$ 15,683,708</b>	<b>\$ 13,706,949</b>	<b>\$ 18,985,669</b>	<b>\$ 19,698,134</b>	<b>\$ 34,669,377</b>	<b>\$ 33,405,083</b>

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

**Capital Assets - Governmental Activities  
2004**



**Capital Assets - Governmental Activities  
2003**

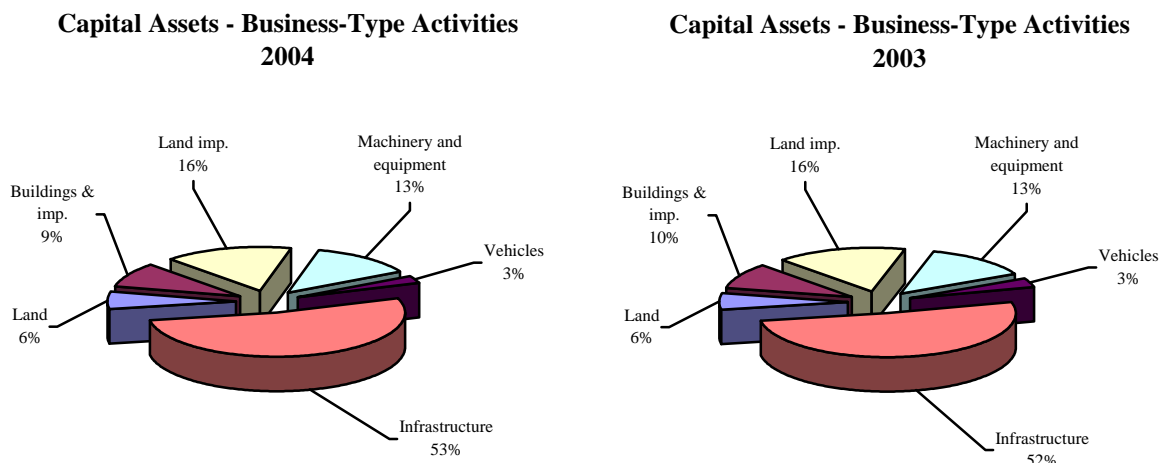


The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, right-of-way, street lighting, and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 67% of the City's total governmental capital assets.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

The following graphs show the breakdown of business-type capital assets by category for 2004 and 2003.



The City's largest business-type capital asset category is infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 52% of the City's total business-type capital assets. Additional information on the City's capital assets can be found in Note 10.

***Debt Administration***

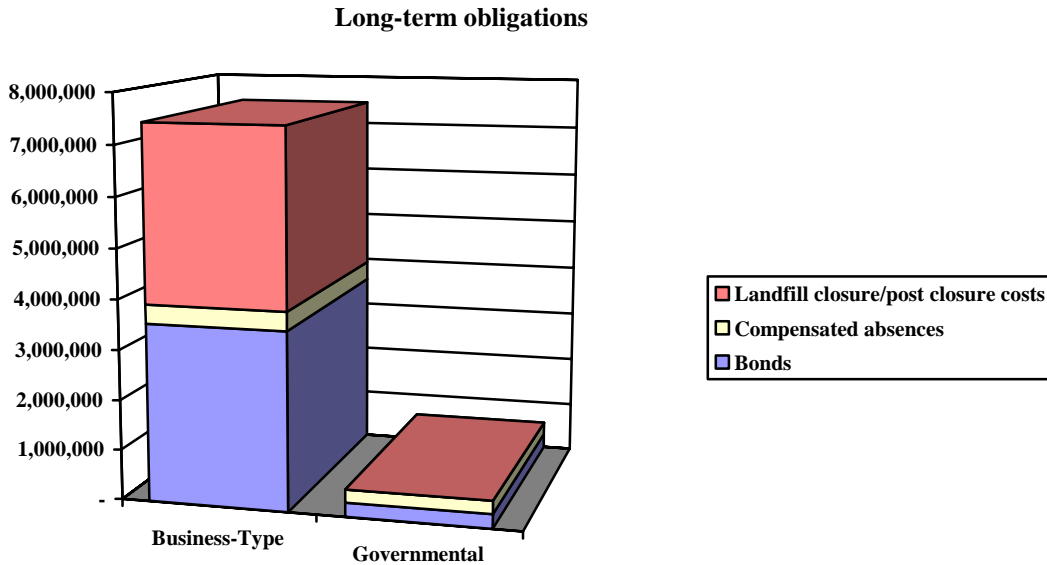
The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Special assessment bonds	\$ 282,000	\$ 273,310
Compensated absences	<u>261,677</u>	<u>235,165</u>
Total long-term obligations	<u>\$ 543,677</u>	<u>\$ 508,475</u>
	Business-Type Activities	
Revenue bonds	\$ 2,020,000	\$ 2,320,000
General obligation bonds	1,659,974	1,727,918
Mortgage revenue bonds	<u>-</u>	<u>3,065,000</u>
Total bonds	<u>3,679,974</u>	<u>7,112,918</u>
Compensated absences	377,642	358,704
Landfill closure/post closure costs	<u>3,516,870</u>	<u>3,922,845</u>
Total long-term obligation	<u>\$ 7,574,486</u>	<u>\$ 11,394,467</u>

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004  
UNAUDITED

A comparison of the long-term obligations by category is depicted in the chart below.



**Economic Conditions and Outlook**

The largest industrial manufacturing plant in St. Marys remains the Goodyear Tire & Rubber Company with employment at the local plant remaining steady at 750 employees for the last several years. Goodyear has kept the local plant competitive and responsible to the global marketplace changes. The primary products produced at the local Goodyear plant today are agricultural rubber tracks called the “trackman” and military rubber tank treads produced for use on the Army’s primary battle tank - the Abrams M1 tank - produced in Lima. While the local plant has remained profitable, Goodyear Corporate has experienced losses in the North American Tire Plants that have resulted in Goodyear evaluating all phases of their operations.

The industrial base in St. Marys has been greatly diversified in the past 15 years, primarily due to the success of several Japanese-based companies that started production in St. Marys during the late 1980s.

Setex was the first Japanese-based company to call St. Marys home when it started the production of automotive seats for Honda in the late 1980s. Over the past 15 years, Setex has experienced tremendous growth, with employment levels increasing from the initial 65 employees to the current 600 employees. Setex also increased production capacity significantly by first doubling the size of their initial plant and later constructing a new manufacturing plant to permit production of seats for a variety of Honda automobile lines.

AAP St. Marys Corporation, a division of Hitachi Metals America Ltd., established their aluminum wheel casting plant in St. Marys in 1988. AAP St. Marys has also experienced tremendous growth, with employment levels increasing from the initial 65 employees to the 425 employees today, these 425 employees provide a key component of the stable industrial base in St. Marys.

St. Marys has other manufacturing industries that add stability to the local economy. Parker Hannifin Corporation, employing 200 workers, manufactures hydraulic cylinder components and recently constructed a new plant in the City. Omni Manufacturing Inc., a metal tooling and stamping plant, has enjoyed steady growth with employment levels near 100. In addition, The St. Marys Foundry, ProPet Classic Delight, MTO, and others combine to offer diverse manufacturing jobs for families in the St. Marys area.

Joint Township District Memorial Hospital has just completed a multi-million dollar expansion project that will

## CITY OF ST. MARYS, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004 UNAUDITED

further enhance an already excellent level of health care for St. Marys and the entire region. Joint Township District Memorial Hospital remains the top non-manufacturing sector employer with over 600 workers.

The diversity of the manufacturing sector bodes well for the economy of St. Marys. If there is an occasional slow-down at one individual industry, it is hoped that St. Marys' diverse employment opportunities are strong enough to withstand any economic slow-down that may occur.

#### **For the Future**

The City of St. Marys is a beautiful community located in West Central Ohio midway between Cincinnati and Toledo, and about 20 miles east of the Indiana state line. Only 10 miles to the east is Interstate 75, one of the nation's busiest north-south highways. St. Marys offers a lovely rural setting right in the heart of Industrial America. Several major metropolitan areas including Dayton, Columbus, Ft. Wayne, and Toledo are within easy commuting distance. Almost two-thirds of the nation's population live within a 500 mile radius, making St. Marys a natural location to conduct business.

St. Marys has a diverse and prosperous business base and a population that understands the value of hard work. The fertile farmland and expanding tourism industry provide additional economic factors that add significantly to our economic prosperity.

The rich history of St. Marys dates back to the early 1800s when "Canal Fever" swept over Ohio. It provided St. Marys with the opportunity to become part of a canal system highway that would run from the Miami River to Lake Erie. After completion of the canal, Grand Lake St. Marys (formerly The Grand Reservoir) was completed in 1845 to help maintain the water levels in the canal. Grand Lake St. Marys is now one of the busiest tourist areas in Ohio.

Our future promises to be even brighter than our historic past. St. Marys is a community of nearly 9,000 residents. The people embrace a lifestyle based on strong family values. Caring for our neighbors and respecting our neighbors is a way of life. The Police, Fire, and EMS Forces offer hometown security only experienced in a rural setting such as St. Marys. Utility services offered by the City are some of the most reliable and economical in the entire region.

St. Marys' residents are proud of their past and look forward to the future with excitement and enthusiasm. Civic pride has been highlighted in St. Marys by several community projects that have made the downtown business district a focal point for the entire area. Citizens donated their time and efforts to construct a replica of historic canal boat, a wooden covered bridge, a grotto along the St. Marys River, and a Veterans' Memorial Walkway. St. Marys' people are "can do" people, taking strides to improve their community.

From the early canal days and into the 21<sup>st</sup> century, industry has found a home in St. Marys. Businesses have been retained, with many undergoing expansions. The cooperative attitude between business and government has also resulted in many new industrial additions to the community in the past 15 years.

#### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Douglas Riesen, City Auditor, City of St. Marys 101 E. Spring Street, St. Marys, OH 45885.

BASIC  
FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 11,056,178	\$ 7,153,716	\$ 18,209,894
Investments . . . . .	-	282,000	282,000
Cash in segregated accounts . . . . .	21,599	-	21,599
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	805,751	-	805,751
Real and other taxes . . . . .	396,133	65,388	461,521
Accounts . . . . .	88,216	1,310,797	1,399,013
Loans. . . . .	1,244,459	-	1,244,459
Special assessments . . . . .	265,406	648	266,054
Accrued interest . . . . .	1,948	1,305	3,253
Internal balance. . . . .	155,560	(155,560)	-
Due from other governments . . . . .	398,092	-	398,092
Prepayments . . . . .	56,703	190,881	247,584
Materials and supplies inventory . . . . .	50,796	522,633	573,429
Investment in joint venture . . . . .	-	1,397,211	1,397,211
Unamortized bond issue costs . . . . .	-	59,168	59,168
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	-	1,353,059	1,353,059
Deposits in segregated accounts. . . . .	-	447,754	447,754
Refundable deposits. . . . .	-	191,384	191,384
Cash with fiscal agent . . . . .	68,723	-	68,723
Capital assets:			
Land and construction-in-progress . . . . .	2,624,626	1,194,470	3,819,096
Depreciable capital assets, net . . . . .	13,059,082	17,791,199	30,850,281
Total capital assets. . . . .	<u>15,683,708</u>	<u>18,985,669</u>	<u>34,669,377</u>
Total assets. . . . .	<u>30,293,272</u>	<u>31,806,053</u>	<u>62,099,325</u>

-continued



**CITY OF ST. MARYS, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	114,387	642,643	757,030
Retainage payable . . . . .	48,551	-	48,551
Accrued wages and benefits . . . . .	52,956	46,371	99,327
Due to other governments . . . . .	106,052	46,307	152,359
Claims payable . . . . .	117,076	-	117,076
Judgements payable . . . . .	7,500	-	7,500
Deferred revenue . . . . .	401,747	-	401,747
Accrued interest payable . . . . .	17,806	103,565	121,371
Notes payable . . . . .	924,000	3,517,000	4,441,000
Payable from restricted assets:			
Accrued interest payable . . . . .	-	9,448	9,448
Refundable deposits . . . . .	-	191,384	191,384
Long-term liabilities:			
Due within one year . . . . .	150,361	467,174	617,535
Due in more than one year . . . . .	393,316	6,978,605	7,371,921
	<u>2,333,752</u>	<u>12,002,497</u>	<u>14,336,249</u>
Total liabilities . . . . .			
	<u>2,333,752</u>	<u>12,002,497</u>	<u>14,336,249</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	14,477,708	11,917,402	26,395,110
Restricted for:			
Capital projects . . . . .	4,617,285	-	4,617,285
Debt service . . . . .	293,345	-	293,345
Operations . . . . .	-	756,548	756,548
Improvements and replacements . . . . .	-	1,242,824	1,242,824
Other purposes . . . . .	2,969,716	-	2,969,716
Unrestricted . . . . .	5,601,466	5,886,782	11,488,248
	<u>5,601,466</u>	<u>5,886,782</u>	<u>11,488,248</u>
Total net assets . . . . .	<u>\$ 27,959,520</u>	<u>\$ 19,803,556</u>	<u>\$ 47,763,076</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government . . . . .	\$ 711,894	\$ 285,758	\$ -	\$ 30,000
Security of persons and property . . . . .	2,135,807	16,717	6,996	-
Public health and welfare . . . . .	18,236	68,576	-	3,035
Transportation . . . . .	1,613,609	7,608	320,735	148,469
Community environment . . . . .	24,462	16,089	-	-
Leisure time activity . . . . .	356,275	85,786	-	-
Interest and fiscal charges . . . . .	44,739	134,232	-	-
Total governmental activities . . . . .	<u>4,905,022</u>	<u>614,766</u>	<u>327,731</u>	<u>181,504</u>
<b>Business-type Activities:</b>				
Water . . . . .	1,184,213	1,197,090	-	-
Sewer . . . . .	1,065,927	1,297,917	-	-
Electric . . . . .	12,048,934	10,410,843	-	-
Refuse . . . . .	700,735	858,443	-	-
Total business-type activities . . . . .	<u>14,999,809</u>	<u>13,764,293</u>	<u>-</u>	<u>-</u>
Total primary government . . . . .	<u>\$ 19,904,831</u>	<u>\$ 14,379,059</u>	<u>\$ 327,731</u>	<u>\$ 181,504</u>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	
Police and fire pension . . . . .	
Income taxes levied for:	
General purposes . . . . .	
Capital projects . . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	
Miscellaneous . . . . .	
Total general revenues . . . . .	
Transfers . . . . .	
Change in net assets . . . . .	
<b>Net assets at beginning of year . . . . .</b>	
<b>Net assets at end of year . . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net Revenue (Expense) and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (396,136)	\$ -	\$ (396,136)
(2,112,094)	-	(2,112,094)
53,375	-	53,375
(1,136,797)	-	(1,136,797)
(8,373)	-	(8,373)
(270,489)	-	(270,489)
89,493	-	89,493
<u>(3,781,021)</u>	<u>-</u>	<u>(3,781,021)</u>
-	12,877	12,877
-	231,990	231,990
-	(1,638,091)	(1,638,091)
-	157,708	157,708
<u>-</u>	<u>(1,235,516)</u>	<u>(1,235,516)</u>
<u>(3,781,021)</u>	<u>(1,235,516)</u>	<u>(5,016,537)</u>
1,089,870	-	1,089,870
71,774	-	71,774
2,575,100	-	2,575,100
1,211,376	-	1,211,376
547,871	-	547,871
249,624	185,446	435,070
97,403	233,814	331,217
<u>5,843,018</u>	<u>419,260</u>	<u>6,262,278</u>
<u>(817,703)</u>	<u>817,703</u>	<u>-</u>
1,244,294	1,447	1,245,741
<u>26,715,226</u>	<u>19,802,109</u>	<u>46,517,335</u>
<u>\$ 27,959,520</u>	<u>\$ 19,803,556</u>	<u>\$ 47,763,076</u>

**CITY OF ST. MARYS, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	<b>General</b>	<b>Voted Income Tax</b>	<b>Recreational Facility Construction</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 3,848,883	\$ 2,740,987	\$ 42,451	\$ 4,232,041	\$ 10,864,362
Receivables (net of allowance for uncollectibles):					
Income taxes . . . . .	539,853	265,898	-	-	805,751
Real and other taxes . . . . .	311,671	-	-	84,462	396,133
Accounts . . . . .	33,892	51,136	-	2,650	87,678
Loans . . . . .	-	-	-	1,244,459	1,244,459
Special assessments . . . . .	-	-	-	265,406	265,406
Accrued interest . . . . .	1,422	479	-	-	1,901
Due from other funds . . . . .	62,833	9,630	-	-	72,463
Due from other governments . . . . .	245,503	-	-	152,589	398,092
Prepayments . . . . .	43,637	-	-	13,066	56,703
Materials and supplies inventory . . . . .	23,828	-	-	11,156	34,984
Restricted assets:					
Cash with fiscal agent . . . . .	-	-	-	68,723	68,723
Total assets . . . . .	<u>\$ 5,111,522</u>	<u>\$ 3,068,130</u>	<u>\$ 42,451</u>	<u>\$ 6,074,552</u>	<u>\$ 14,296,655</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 11,297	\$ 56,018	\$ -	\$ 35,387	\$ 102,702
Retainage payable . . . . .	-	48,551	-	-	48,551
Accrued wages and benefits . . . . .	43,588	1,195	-	7,388	52,171
Due to other governments . . . . .	28,843	1,000	-	75,691	105,534
Judgements payable . . . . .	7,500	-	-	-	7,500
Deferred revenue . . . . .	826,537	150,088	-	481,339	1,457,964
Notes payable . . . . .	-	-	750,000	174,000	924,000
Total liabilities . . . . .	<u>917,765</u>	<u>256,852</u>	<u>750,000</u>	<u>773,805</u>	<u>2,698,422</u>
<b>Fund balances:</b>					
Reserved for encumbrances . . . . .	92,547	342,103	-	136,502	571,152
Reserved for materials and supplies inventory . . . . .	23,828	-	-	11,156	34,984
Reserved for prepayments . . . . .	43,637	-	-	13,066	56,703
Reserved for loans . . . . .	-	-	-	1,244,459	1,244,459
Reserved for debt service . . . . .	-	-	-	46,044	46,044
Reserved for restricted assets . . . . .	-	-	-	68,723	68,723
Unreserved, undesignated (deficit), reported in:					
General fund . . . . .	4,033,745	-	-	-	4,033,745
Special revenue funds . . . . .	-	-	-	1,601,709	1,601,709
Capital projects funds . . . . .	-	2,469,175	(707,549)	2,179,088	3,940,714
Total fund balances . . . . .	<u>4,193,757</u>	<u>2,811,278</u>	<u>(707,549)</u>	<u>5,300,747</u>	<u>11,598,233</u>
Total liabilities and fund balances . . . . .	<u>\$ 5,111,522</u>	<u>\$ 3,068,130</u>	<u>\$ 42,451</u>	<u>\$ 6,074,552</u>	<u>\$ 14,296,655</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2004

**Total governmental fund balances** \$ 11,598,233

*Amounts reported for governmental activities  
in the statement of net assets are different because:*

Capital assets used in governmental activities (excluding internal service fund capital assets) are not financial resources and therefore are not reported in the funds. 15,631,208

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

Income tax revenue	\$	453,360
Property tax revenue		17,024
Special assessment revenue		265,406
Intergovernmental revenue		318,526
Interest revenue		1,901

Total 1,056,217

The internal service funds are used by management to charge the costs of employee insurance and the maintenance garage to individual funds.

The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net assets of the internal service funds, including an internal balance of \$83,097 are: 227,990

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities (excluding amounts reported in internal service funds) are as follows:

Special assessment bonds		282,000
Compensated absences		254,322
Accrued interest		17,806

Total (554,128)

**Net assets of governmental activities** \$ 27,959,520

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>General</b>	<b>Voted Income Tax</b>	<b>Recreational Facility Construction</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
Income taxes . . . . .	\$ 2,537,062	\$ 1,192,641	\$ -	\$ -	\$ 3,729,703
Real and other taxes . . . . .	1,102,860	-	-	74,676	1,177,536
Charges for services . . . . .	285,758	-	-	85,786	371,544
Licenses, permits and fees . . . . .	68,576	-	-	-	68,576
Fines and forfeitures . . . . .	12,377	-	-	4,340	16,717
Special assessments . . . . .	-	-	-	134,724	134,724
Intergovernmental . . . . .	533,270	-	-	457,911	991,181
Investment income . . . . .	154,214	33,895	-	61,432	249,541
Rental income . . . . .	16,089	-	-	-	16,089
Other . . . . .	29,906	59,969	-	7,528	97,403
Total revenues . . . . .	<u>4,740,112</u>	<u>1,286,505</u>	<u>-</u>	<u>826,397</u>	<u>6,853,014</u>
<b>Expenditures:</b>					
Current:					
General government . . . . .	673,202	-	-	-	673,202
Security of persons and property . . . . .	1,943,689	-	-	273,316	2,217,005
Public health and welfare . . . . .	17,522	-	-	-	17,522
Transportation . . . . .	-	-	-	642,701	642,701
Community environment . . . . .	20,384	-	-	364	20,748
Leisure time activity . . . . .	166,217	-	-	74,983	241,200
Capital outlay . . . . .	-	1,460,494	-	318,359	1,778,853
Debt service:					
Principal retirement . . . . .	-	-	-	83,310	83,310
Interest and fiscal charges . . . . .	-	-	14,917	17,568	32,485
Total expenditures . . . . .	<u>2,821,014</u>	<u>1,460,494</u>	<u>14,917</u>	<u>1,410,601</u>	<u>5,707,026</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>1,919,098</u>	<u>(173,989)</u>	<u>(14,917)</u>	<u>(584,204)</u>	<u>1,145,988</u>
<b>Other financing sources (uses):</b>					
Proceeds from sale of bonds . . . . .	-	-	-	92,000	92,000
Transfers in . . . . .	-	-	264,917	1,003,403	1,268,320
Transfers out . . . . .	<u>(1,964,826)</u>	<u>-</u>	<u>-</u>	<u>(121,197)</u>	<u>(2,086,023)</u>
Total other financing sources (uses) . . . . .	<u>(1,964,826)</u>	<u>-</u>	<u>264,917</u>	<u>974,206</u>	<u>(725,703)</u>
Net change in fund balances . . . . .	(45,728)	(173,989)	250,000	390,002	420,285
<b>Fund balances (deficit) at beginning of year . .</b>	4,239,490	2,985,267	(957,549)	4,911,037	11,178,245
<b>Decrease in reserve for inventory . . . . .</b>	(5)	-	-	(292)	(297)
<b>Fund balances (deficit) at end of year . . . . .</b>	<u>\$ 4,193,757</u>	<u>\$ 2,811,278</u>	<u>\$ (707,549)</u>	<u>\$ 5,300,747</u>	<u>\$ 11,598,233</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Net change in fund balances - total governmental funds</b>	\$	420,285
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,704,559) exceeded depreciation expense (\$916,298) in the current period. Both amounts are exclusive of internal service funds activity.		788,261
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(15,831)
Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed.		(297)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		82,376
Proceeds of bonds and notes are reported as an other financing source in the governmental funds, but as an increase in liabilities in governmental activities.		(92,000)
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		83,310
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.		(12,254)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(25,809)
The internal service funds used by management to charge the costs of employee insurance and the maintenance garage to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds, including an internal balance of \$83,097, is allocated among the governmental activities.		16,253
<b>Change in net assets of governmental activities.</b>	<b>\$</b>	<b>1,244,294</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Income taxes. . . . .	\$ 3,680,170	\$ 3,680,170	\$ 3,685,574	\$ 5,404
Real and other taxes . . . . .	325,739	325,739	326,217	478
Charges for services . . . . .	290,079	290,079	290,505	426
Licenses, permits and fees . . . . .	87,296	87,296	87,424	128
Fines and forfeitures . . . . .	11,270	11,270	11,287	17
Intergovernmental . . . . .	515,192	515,192	515,948	756
Investment income . . . . .	146,800	146,800	147,016	216
Rental income . . . . .	16,065	16,065	16,089	24
Other . . . . .	29,661	29,661	29,705	44
Total revenues. . . . .	<u>5,102,272</u>	<u>5,102,272</u>	<u>5,109,765</u>	<u>7,493</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	811,841	814,378	717,936	96,442
Security of persons and property. . . . .	2,025,658	2,031,987	1,791,351	240,636
Public health and welfare . . . . .	20,598	20,662	18,215	2,447
Community environment . . . . .	23,963	24,038	21,191	2,847
Leisure time activities . . . . .	201,019	201,647	177,767	23,880
Debt service:				
Principal retirement . . . . .	282,700	283,583	250,000	33,583
Interest and fiscal charges . . . . .	16,868	16,921	14,917	2,004
Total expenditures . . . . .	<u>3,382,647</u>	<u>3,393,216</u>	<u>2,991,377</u>	<u>401,839</u>
Excess of revenues over expenditures . . . . .	<u>1,719,625</u>	<u>1,709,056</u>	<u>2,118,388</u>	<u>409,332</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	2,506,475	2,506,475	2,510,155	3,680
Transfers out. . . . .	(5,514,569)	(5,531,800)	(4,876,702)	655,098
Total other financing sources (uses). . . . .	<u>(3,008,094)</u>	<u>(3,025,325)</u>	<u>(2,366,547)</u>	<u>658,778</u>
Net change in fund balance. . . . .	(1,288,469)	(1,316,269)	(248,159)	1,068,110
<b>Fund balance at beginning of year . . . . .</b>	3,869,951	3,869,951	3,869,951	-
<b>Prior year encumbrances appropriated . . . . .</b>	123,247	123,247	123,247	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 2,704,729</u>	<u>\$ 2,676,929</u>	<u>\$ 3,745,039</u>	<u>\$ 1,068,110</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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**CITY OF ST. MARYS, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2004

	<b>Business-type Activities -</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and cash equivalents . . . . .	\$ 990,825	\$ 1,533,853	\$ 3,971,253
Investments . . . . .	-	-	282,000
Cash in segregated accounts. . . . .	-	-	-
Receivables (net of allowance for uncollectibles):			
Real and other taxes. . . . .	-	-	65,388
Accounts . . . . .	108,837	123,334	1,013,399
Special assessments. . . . .	148	500	-
Accrued interest. . . . .	283	248	774
Prepayments. . . . .	26,101	26,894	129,354
Materials and supplies inventory . . . . .	173,423	21,732	324,715
Unamortized bond issuance costs . . . . .	15,193	43,975	-
Noncurrent assets:			
Cash and cash equivalents. . . . .	964,051	389,008	-
Investment in joint venture . . . . .	-	-	1,397,211
Restricted assets:			
Deposits in segregated accounts. . . . .	146,272	301,482	-
Refundable deposits. . . . .	-	-	191,384
Capital assets:			
Land . . . . .	232,462	144,500	513,813
Depreciable capital assets, net . . . . .	4,335,347	3,790,262	7,856,670
Total capital assets . . . . .	<u>4,567,809</u>	<u>3,934,762</u>	<u>8,370,483</u>
Total assets. . . . .	<u>6,992,942</u>	<u>6,375,788</u>	<u>15,745,961</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable . . . . .	22,106	1,246	605,517
Accrued wages and benefits. . . . .	7,482	8,903	24,038
Due to other funds . . . . .	3,557	3,973	64,933
Due to other governments . . . . .	5,105	5,647	18,409
Accrued interest payable . . . . .	-	-	92,367
Payable from restricted assets:			
Current portion of revenue bonds . . . . .	85,000	230,000	-
Accrued interest payable. . . . .	4,209	5,239	-
Refundable deposits . . . . .	-	-	191,384
Notes payable. . . . .	-	-	2,500,000
Claims payable . . . . .	-	-	-
Long-term liabilities:			
Compensated absences . . . . .	98,182	61,228	182,751
Revenue bonds payable. . . . .	685,000	891,293	-
General obligation bonds payable . . . . .	-	-	1,659,974
Landfill closure/post closure liability. . . . .	-	-	-
Total liabilities . . . . .	<u>910,641</u>	<u>1,207,529</u>	<u>5,339,373</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt. . . . .	3,797,809	2,813,469	4,210,509
Restricted for operations . . . . .	429,938	326,610	-
Restricted for improvements and replacements. . . . .	774,571	468,253	-
Unrestricted (deficit) . . . . .	1,079,983	1,559,927	6,196,079
Total net assets (deficit) . . . . .	<u>\$ 6,082,301</u>	<u>\$ 5,168,259</u>	<u>\$ 10,406,588</u>

Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.

Net assets of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>Enterprise Funds</b>		<b>Governmental Activities - Internal Service Funds</b>	
<b>Refuse</b>	<b>Total</b>		
\$ 657,785	\$ 7,153,716	\$ 191,816	
-	282,000	-	
-	-	21,599	
-	65,388	-	
65,227	1,310,797	538	
-	648	-	
-	1,305	47	
8,532	190,881	-	
2,763	522,633	15,812	
-	59,168	-	
-	1,353,059	-	
-	1,397,211	-	
-	447,754	-	
-	191,384	-	
303,695	1,194,470	-	
1,808,920	17,791,199	52,500	
<u>2,112,615</u>	<u>18,985,669</u>	<u>52,500</u>	
<u>2,846,922</u>	<u>31,961,613</u>	<u>282,312</u>	
13,774	642,643	11,685	
5,948	46,371	785	
-	72,463	-	
17,146	46,307	518	
11,198	103,565	-	
-	315,000	-	
-	9,448	-	
-	191,384	-	
1,017,000	3,517,000	-	
-	-	117,076	
35,481	377,642	7,355	
-	1,576,293	-	
-	1,659,974	-	
<u>3,516,870</u>	<u>3,516,870</u>	<u>-</u>	
<u>4,617,417</u>	<u>12,074,960</u>	<u>137,419</u>	
1,095,615	11,917,402	52,500	
-	756,548	-	
-	1,242,824	-	
<u>(2,866,110)</u>	<u>5,969,879</u>	<u>92,393</u>	
<u>\$ (1,770,495)</u>	<u>19,886,653</u>	<u>\$ 144,893</u>	
	<u>(83,097)</u>		
	<u>\$ 19,803,556</u>		

**CITY OF ST. MARYS, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Business-type Activities -</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>
<b>Operating revenues:</b>			
Charges for services . . . . .	\$ 1,193,551	\$ 1,296,071	\$ 10,396,891
Tap-in fees . . . . .	2,483	-	-
Rental income . . . . .	1,056	1,846	13,952
Other . . . . .	43,209	5,664	156,666
<b>Total operating revenues . . . . .</b>	<b>1,240,299</b>	<b>1,303,581</b>	<b>10,567,509</b>
<b>Operating expenses:</b>			
Personal services . . . . .	620,730	575,290	1,656,255
Contractual services . . . . .	78,288	55,954	773,554
Materials and supplies . . . . .	123,936	53,599	7,955,888
Utilities expense . . . . .	50,092	61,587	30,799
Claims expense . . . . .	-	-	-
Depreciation . . . . .	224,710	187,402	574,034
Other . . . . .	1,164	7,084	170,226
<b>Total operating expenses . . . . .</b>	<b>1,098,920</b>	<b>940,916</b>	<b>11,160,756</b>
<b>Operating income (loss) . . . . .</b>	<b>141,379</b>	<b>362,665</b>	<b>(593,247)</b>
<b>Nonoperating revenues (expenses):</b>			
Interest and fiscal charges . . . . .	(57,567)	(104,033)	(717,374)
Interest revenue . . . . .	8,615	12,548	157,008
Decrease in investment in joint venture . . . . .	-	-	(73,131)
Other local tax revenue . . . . .	-	-	11,792
Excise tax expense . . . . .	-	-	(11,792)
<b>Total nonoperating revenues (expenses) . . . . .</b>	<b>(48,952)</b>	<b>(91,485)</b>	<b>(633,497)</b>
<b>Net income (loss) before transfers . . . . .</b>	<b>92,427</b>	<b>271,180</b>	<b>(1,226,744)</b>
Transfers in . . . . .	-	-	777,703
<b>Changes in net assets . . . . .</b>	<b>92,427</b>	<b>271,180</b>	<b>(449,041)</b>
<b>Net assets (deficit) at beginning of year . . . . .</b>	<b>5,989,874</b>	<b>4,897,079</b>	<b>10,855,629</b>
<b>Net assets (deficit) at end of year . . . . .</b>	<b>\$ 6,082,301</b>	<b>\$ 5,168,259</b>	<b>\$ 10,406,588</b>

Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.

Changes in net assets of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>	
<u>Refuse</u>	<u>Total</u>		
\$ 598,325	\$ 13,484,838	\$ 996,972	
-	2,483	-	
260,118	276,972	-	
16,483	222,022	502	
<u>874,926</u>	<u>13,986,315</u>	<u>997,474</u>	
334,369	3,186,644	60,498	
176,133	1,083,929	108	
12,975	8,146,398	217,876	
8,210	150,688	650	
-	-	865,946	
115,732	1,101,878	4,727	
2,695	181,169	349	
<u>650,114</u>	<u>13,850,706</u>	<u>1,150,154</u>	
<u>224,812</u>	<u>135,609</u>	<u>(152,680)</u>	
(17,902)	(896,876)	-	
7,275	185,446	1,629	
-	(73,131)	-	
<u>-</u>	<u>(11,792)</u>	<u>-</u>	
<u>(10,627)</u>	<u>(796,353)</u>	<u>1,629</u>	
214,185	(660,744)	(151,051)	
40,000	817,703	-	
254,185	156,959	(151,051)	
<u>(2,024,680)</u>		<u>295,944</u>	
<u>\$ (1,770,495)</u>		<u>\$ 144,893</u>	
	<u>(167,304)</u>		
	<u>\$ (10,345)</u>		

**CITY OF ST. MARYS, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Business-type Activities -</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>
<b>Cash flows from operating activities:</b>			
Cash received from charges for services . . . . .	\$ 1,190,810	\$ 1,290,803	\$ 10,302,976
Cash received from tap-in fees. . . . .	2,483	-	-
Cash received from rental charges . . . . .	-	1,846	13,952
Cash received from other operations. . . . .	43,209	5,664	176,552
Cash payments for personal services . . . . .	(621,852)	(584,766)	(1,692,727)
Cash payments for contractual services . . . . .	(82,957)	(63,610)	(794,795)
Cash payments for materials and supplies . . . . .	(142,027)	(51,067)	(7,964,698)
Cash payments for utilities expense . . . . .	(50,092)	(61,587)	(30,799)
Cash payments for claims expense. . . . .	-	-	-
Cash payments for other expenses . . . . .	(1,164)	(7,084)	(173,393)
Net cash provided by (used in) operating activities. . . . .	<u>338,410</u>	<u>530,199</u>	<u>(162,932)</u>
<b>Cash flows from noncapital financing activities:</b>			
Cash received from transfers in. . . . .	-	-	777,703
Cash received from local taxes . . . . .	-	-	5,896
Cash payments for excise tax expense . . . . .	-	-	(5,896)
Net cash provided by noncapital financing activities. . . . .	<u>-</u>	<u>-</u>	<u>777,703</u>
<b>Cash flows from capital and related financing activities:</b>			
Cash payments for the acquisition of capital assets . . . . .	(209,085)	(149,745)	(29,707)
Cash received from proceeds of notes. . . . .	-	-	2,500,000
Cash payments for principal retirement . . . . .	(80,000)	(220,000)	(2,567,944)
Cash payments to escrow agent . . . . .	-	-	(2,679,487)
Cash payments for interest and fiscal charges. . . . .	(55,804)	(73,413)	(237,944)
Net cash used in capital and related financing activities . . . . .	<u>(344,889)</u>	<u>(443,158)</u>	<u>(3,015,082)</u>
<b>Cash flows from investing activities:</b>			
Cash received from interest earned . . . . .	9,104	12,495	174,564
Cash received from maturities of investments . . . . .	-	-	83,310
Cash payments for purchase of investments . . . . .	-	-	(365,310)
Net cash provided by investing activities. . . . .	<u>9,104</u>	<u>12,495</u>	<u>(107,436)</u>
Net increase (decrease) in cash and cash equivalents . . . . .	2,625	99,536	(2,507,747)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>2,098,523</u>	<u>2,124,807</u>	<u>6,952,384</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u>\$ 2,101,148</u>	<u>\$ 2,224,343</u>	<u>\$ 4,444,637</u>

<b>Enterprise Funds</b>		<b>Governmental Activities - Internal Service Funds</b>	
<b>Refuse</b>	<b>Total</b>		
\$ 600,781	\$ 13,385,370	\$ 996,972	
-	2,483	-	
260,118	275,916	-	
18,382	243,807	15	
(339,654)	(3,238,999)	(61,463)	
(593,696)	(1,535,058)	(108)	
(12,230)	(8,170,022)	(211,343)	
(8,210)	(150,688)	(650)	
-	-	(797,916)	
(2,695)	(184,336)	(349)	
<u>(77,204)</u>	<u>628,473</u>	<u>(74,842)</u>	
40,000	817,703	-	
-	(5,896)	-	
<u>40,000</u>	<u>811,807</u>	<u>-</u>	
-	(388,537)	-	
1,017,000	3,517,000	-	
(1,082,000)	(3,949,944)	-	
(15,064)	(382,225)	-	
<u>(80,064)</u>	<u>(1,203,706)</u>	<u>-</u>	
7,275	203,438	1,599	
-	83,310	-	
-	(365,310)	-	
<u>7,275</u>	<u>(78,562)</u>	<u>1,599</u>	
(109,993)	158,012	(73,243)	
767,778	11,943,492	286,658	
<u>\$ 657,785</u>	<u>\$ 12,101,504</u>	<u>\$ 213,415</u>	

-continued

**CITY OF ST. MARYS, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Business-type Activities -</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income (loss). . . . .	\$ 141,379	\$ 362,665	\$ (569,663)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation . . . . .	224,710	187,402	574,034
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable. . . . .	(4,360)	(5,635)	(93,960)
Decrease in special assessments receivable . . . . .	563	367	-
(Increase) decrease in materials and supplies inventory.	(31,197)	2,276	5,698
Increase in prepayments . . . . .	(812)	(1,080)	(3,073)
Increase (decrease) in accounts payable . . . . .	9,107	(5,782)	22,911
Decrease in contracts payable . . . . .	-	-	(55,461)
Decrease in accrued wages and benefits . . . . .	(8,916)	(12,434)	(35,188)
Increase in compensated absences payable. . . . .	8,875	4,699	3,965
Increase (decrease) in due to other governments . . . . .	(1,081)	(1,741)	(5,249)
Increase (decrease) in due to other funds . . . . .	142	(538)	(569)
Increase in refundable deposits liability. . . . .	-	-	11,311
Decrease in landfill closure/post closure liability . . . . .	-	-	-
Increase in claims payable. . . . .	-	-	-
Net cash provided by (used in) operating activities . . . . .	<u>\$ 338,410</u>	<u>\$ 530,199</u>	<u>\$ (145,244)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



<u>Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>	
<u>Refuse</u>	<u>Total</u>		
\$ 224,812	\$ 159,193	\$	(152,680)
115,732	1,101,878		4,727
4,355	(99,600)		(487)
-	930		-
745	(22,478)		5,028
(759)	(5,724)		-
(24,726)	1,510		1,505
-	(55,461)		-
(5,797)	(62,335)		(1,411)
1,399	18,938		703
13,010	4,939		(257)
-	(965)		-
-	11,311		-
(405,975)	(405,975)		-
-	-		68,030
<u>\$ (77,204)</u>	<u>\$ 646,161</u>	<u>\$</u>	<u>(74,842)</u>

**CITY OF ST. MARYS, OHIO**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2004**

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 66,143
Receivables:	
Income taxes . . . . .	<u>1,501,084</u>
Total assets . . . . .	<u>\$ 1,567,227</u>
<b>Liabilities:</b>	
Due to other governments. . . . .	\$ 1,501,084
Payroll withholdings . . . . .	1,437
Undistributed assets. . . . .	<u>64,706</u>
Total liabilities . . . . .	<u>\$ 1,567,227</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## CITY OF ST. MARYS, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

#### NOTE 1 - DESCRIPTION OF THE CITY

The City of St. Marys (the “City”) is a home rule municipal corporation established and operated under the laws of the State of Ohio. St. Marys was established as a city in 1823 and incorporated as a municipal corporation in 1837.

The City operates under a mayor-council form of government. Legislative power is vested in a seven member council and a council president, each elected to two-year terms. The Mayor is elected to a four-year term and is the chief executive officer of the City. Three City Council members are elected at-large and four are elected from wards. Other elected officials consist of the auditor, treasurer, and law director; each elected for four-year terms.

The City of St. Marys is divided into various departments and financial management and control systems. Services provided include police and fire protection, street maintenance and repair, planning and zoning, parks and recreation (including a swimming pool), and water, sewer, electric, and refuse services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

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

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City does not apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City’s accounting policies are described below.

##### A. Reporting Entity

A reporting entity is comprised 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. The City’s reporting entity has been defined according to GASB Statement No. 14, “The Financial Reporting Entity”, and as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units”.

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 influence significantly 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; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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 in 2004. The following organizations are described due to their relationship to the City:

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

***JOINT VENTURE WITH EQUITY INTEREST***

Ohio Municipal Electric Generation Agency Joint Venture

The City of St. Mary's is a Financing Participant and a Purchaser Participant with percentages of liability and ownership of 3.80% and 2.98% respectively and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the OMEGA JV2 Agreement.

Pursuant to the OMEGA JV2 Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds from the revenues of its electric system, subject only to the prior payment of Operating and Maintenance Expenses of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. Under the terms of the OMEGA JV2 Agreement each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2004 the City of St. Marys has met their debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2004 was \$1,431,053 (including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected). The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was \$1,397,211 at December 31, 2004. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2004 are:

Municipality	Percent Ownership	Kw Entitlement	Municipality	Percent Ownership	Kw Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

The City's liability for the bonds are disclosed below:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2005	\$ 70,799	\$ 81,529	\$ 152,328
2006	73,844	78,520	152,364
2007	76,889	75,567	152,456
2008	80,696	71,722	152,418
2009-2020	1,357,746	470,804	1,828,550
Total Gross Liability	<u>1,659,974</u>	<u>778,142</u>	<u>2,438,116</u>
Less: Amounts Held in Reserve	<u>(228,921)</u>		
Net Obligation	<u>1,431,053</u>		

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

***INSURANCE PURCHASING POOL***

The City participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Rural Water Association Workers' Compensation Group Rating Plan is an insurance purchasing pool. A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services and general management fees, determining ongoing eligibility of each participant, and performing any other acts and functions which may be delegated to it by the participating members. Each year, the participating members pay an enrollment fee to the Plan to cover the costs of administering the program.

**B. Basis of Presentation - Fund Accounting**

The City's basic financial statements consist of government-wide 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.

***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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental 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 which are 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 business segment or governmental function 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. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

**C. 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.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

**Governmental Funds** - Governmental funds are those through which most governmental functions typically 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 purposes 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 following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Voted Income Tax Fund - This capital projects fund accounts for the collection of the 0.5% income tax levy which is to be spent on capital improvements.

Recreational Facility Construction Fund - This capital projects fund accounts for the expenditures used for the construction of a new recreational facility and community swimming pool.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

**Proprietary Funds** - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

**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:

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

Sewer Fund - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Electric Fund - This fund accounts for the operations providing electric services to the residents and commercial users located within the City.

Refuse Fund - This fund accounts for the operations providing solid waste removal to the residents and commercial users located within the City.

**Internal Service Funds** - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service funds report on a self-insurance program for employee medical benefits and a maintenance garage.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

*Fiduciary Funds* - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: 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 therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds.

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

*Government-Wide Financial Statements* - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

*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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on 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 changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**E. 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 also 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.



**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (see Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6). 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported 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.

**F. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Budgetary information for the activity of the third party administrator is not reported because it is not included in the entity for which the "appropriated budget" is adopted.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

***Tax Budget*** - A budget of estimated revenues and expenditures for all funds is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

***Estimated Resources*** - The County Budget Commission reviews the 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 September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and 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 the actual unencumbered fund balances from the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines that revenue to be collected will be greater than or less than prior estimates and the County Budget Commission find the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the final amended official certificate of estimated resources issued during 2004.

***Appropriations*** - A temporary appropriations ordinance to control the level of expenditures for all funds 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. Appropriations may not exceed estimated resources as established in the amended official certificate of estimated resources. The allocation of appropriations among departments and objects within a fund may be modified during the year with City Council approval. Several appropriations resolutions were legally enacted by the City Council during the year. The budget figures which appear in the statements of budgetary comparisons represent the appropriated budget amounts and all supplemental appropriations.

***Budgeted Level of Expenditures*** - Administrative control is maintained through the establishment of detailed line-item budgets. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by the City Council. For all funds, council appropriations are made to personal services, capital outlay, debt retirement, transfer accounts and other expenditure accounts for each department. The appropriations set by the City Council must remain fixed unless amended by City Council resolution. More detailed appropriation allocations may be made by the City Auditor as long as the allocations are within the City Council's appropriated amount.

***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.

**G. Cash and Investments**

To improve cash management, cash received other than in segregated accounts or with fiscal agent by the City is pooled. Monies for all funds are maintained in this pool. 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" on the basic financial statements.

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

Cash and cash equivalents that are held separately for the City by fiscal agents and not held with the City Treasurer are recorded on the basic financial statements as "Cash with Fiscal Agents" and "Cash in Segregated Accounts".

The City's Self-Insurance Fund has its own checking account for the collection of premiums and the disbursement of claims and is presented on the balance sheet as "Cash and Cash Equivalents In Segregated Accounts."

Investments are reported at fair value, except for repurchase agreements and non-negotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. The State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.

Interest earnings are allocated to City funds according to state statutes, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2004 was \$154,214, which includes \$73,566 assigned from other City funds.

For purposes of the statement of cash flows and for presentation on the basic financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months, and not purchased from the pool, are reported as investments.

**H. Loans Receivable**

Loans receivable represent the right to receive repayment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients.

**I. Inventories of Materials and Supplies**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

**J. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary 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 utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	50 years	50 years
Buildings	50 years	50 years
Building improvements	20 years	20 years
Machinery and equipment	10 years	10 years
Vehicles	5 - 10 years	5 - 10 years
Infrastructure	30 years	65 years

**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.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments. Accumulated unused sick leave is paid to employees who retire at various rates depending on department and length of service.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

**L. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary 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, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**M. Prepayments**

Payments made to vendors for services that will benefit beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

**N. Interfund Balances**

On fund financial statements, long-term interfund loans are classified as “due to/from other funds” on the balance sheet. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**O. Interfund Activity**

Transfers between governmental and business-type activities on the government-wide 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 interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**P. Fund Balance Reserves**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds. Proprietary fund balance is reserved for resources necessary to comply with bond financing agreements.

The City reports amounts representing encumbrances, materials and supplies inventory, prepayments, loans, debt service, and restricted assets in the governmental fund financial statements.

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

**Q. Restricted Assets**

Certain proceeds of enterprise fund revenue and mortgage revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Restricted assets also represent utility deposits from customers that are restricted because their use is limited to the payment of unpaid utility bills or refunding the deposit to the customer. In addition, restricted assets represent permissive tax money held by Auglaize County.

**R. Unamortized Bond Issuance Costs**

Bond issuance costs for governmental and business-type activities are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond issuance costs are recorded as deferred charges, which is included in assets on the statement of net assets.

**S. Unamortized Gain/Loss on Advance Refunding**

For advance refundings resulting in the defeasance of debt reported in the enterprise funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

**T. Estimates**

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

**U. Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. During 2004 the City had no contributions of capital.

**V. 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 balances 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

**W. Operating Revenues and Expenses**

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

**X. 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 the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balance/Retained Earnings**

Fund balance and retained earnings at December 31, 2004 includes the following individual fund deficits:

<u>Major Governmental Fund</u>	
Recreational Facility Construction	\$ 707,549
<u>Major Enterprise Fund</u>	
Refuse	1,770,495
<u>Nonmajor Governmental Funds</u>	
Police Pension	16,778
Fire Pension	31,246
Special Assessment Improvement	139,553

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, but not when deficits are caused by accruals. The deficit fund balances resulted from adjustments for accrued liabilities.

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

Monies held by the City are classified by state statute 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 Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must 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 ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

Interim deposits are deposits in 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 monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, 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 that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. 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;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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;
3. Obligations of the City.

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 treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.



**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (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.

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".

*Restricted Assets:* At year-end, the City had various deposits which were restricted. See Note 18.

*Restricted Cash with Fiscal Agent:* At year-end, the City had \$68,723 on deposit with a financial institution for permissive tax monies held by Auglaize County. This amount is included in the City's depository balance below.

*Cash in Segregated Accounts:* At year-end, the City had \$21,599 deposited with a financial institution for monies related to the High Street Bridge Construction Project, a joint project with the State of Ohio and for monies related to the Self-Insurance fund. These amounts are included in the City's depository balance below.

*Deposits:* At year-end, the carrying amount of the City's deposits was \$12,815,480 and the bank balance was \$13,517,361. Of the bank balance:

1. \$400,000 was covered by federal depository insurance; and
2. \$13,117,361 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

*Investments:* 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. Money-Market Mutual Funds and STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)**

	Category 1	Category 2	Fair Value
Special assessment bonds	\$ 282,000	\$ -	\$ 282,000
Federal agency securities	-	2,967,190	2,967,190
	\$ -	\$2,967,190	
U.S. Government mutual fund			500,633
Investment in STAR Ohio			4,006,530
Total Investments			\$7,756,353

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 20,289,833	\$ 282,000
Investments of the cash management pool:		
Federal agency securities	(2,967,190)	2,967,190
U.S. Government mutual fund	(500,633)	500,633
Investment in STAR Ohio	(4,006,530)	4,006,530
GASB Statement No. 3	\$ 12,815,480	\$7,756,353

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported on the fund statements:

Transfers to Recreational Facility Construction fund from:

General fund	\$ 264,917
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Transfers to nonmajor governmental funds from:

General fund	882,206
Nonmajor governmental funds	<u>121,197</u>

Transfers to governmental funds	<u>1,003,403</u>
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Transfers to electric fund from:

General fund	777,703
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Transfers to refuse fund from:

General fund	40,000
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All transfers were legal and in compliance with Ohio Revised Code. The most significant transfer that occurred during the year was a \$776,827 transfer from the general fund to the Electric enterprise fund. This transfer was related to the kilowatt hour tax that is collected in the general fund and pertains to electric operations.

- B.** Due from/to other funds consisted of the following at December 31, 2004, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Electric Fund	\$ 62,833
Voted Income Tax fund	Water Fund	3,557
Voted Income Tax fund	Sewer Fund	3,973
Voted Income Tax fund	Electric Fund	2,100

The balances resulted from the time lag between the dates in which payments between the funds are made.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property tax revenues received in 2004 represent the collection of 2003 taxes. For 2004, real property taxes were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. These taxes will be collected in and are intended to finance 2005 operations. Assessed values for real property taxes are established by state statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1999. 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.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 6 - PROPERTY TAXES - (Continued)**

Public utility real and tangible personal property taxes were levied after October 1, 2003, on the assessed values as of December 31, 2001, the lien date. Public utility real property is assessed at 35 percent of true value. Public utility tangible personal property currently is assessed at 88% of true value for taxable transmission and distribution property and 25% of true value for all other taxable property. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2004 (other than public utility property) represent the collection of 2003 taxes. For 2004, tangible personal property taxes were levied after October 1, 2003, on the true value as of December 31, 2003. These taxes will be collected in and are intended to finance 2003 operations. 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 St. Marys. The County Auditor periodically remits to the City its portion of the taxes collected.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2004. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2004 operations.

The full tax rate for all City operations for the year ended December 31, 2004, was \$5.32 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property	
Agricultural/Residential	\$ 76,164,590
Commercial/Industrial	27,914,950
Public Utility Property	
Real	5,420
Personal	1,378,100
Tangible Personal Property	<u>35,733,280</u>
Total Assessed Value	<u>\$141,196,340</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 7 - LOCAL INCOME TAX**

The City levies and collects an income tax of 1.5 percent based 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 100 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 at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

The City, by ordinance, allocates the first 1 percent of the income tax revenues to the general fund (.72); Street Maintenance and Repair special revenue fund (.18); and Capital Improvement capital projects fund (.10). The remaining .5 percent is allocated to the Voted Tax Capital Improvement capital projects fund. Income tax revenue credited to the general fund totaled \$2,537,062 in fiscal 2004, \$1,192,641 for the Voted Income Tax Fund on the fund financial statements.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services), loans, special assessments, accrued interest, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the basic financial statements. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2004, as well as intended to finance fiscal 2004 operations.

A summary of the principal items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Income taxes	\$ 805,751
Real and other taxes	396,133
Accounts	88,216
Loans	1,244,459
Special assessments	265,406
Due from other governments	398,092
Accrued interest	1,948

**Business-type Activities:**

Real and other taxes	65,388
Accounts	1,310,797
Special assessments	648
Accrued interest	1,305

Receivables have been disaggregated on the face of the basic financial statements. The only receivables not expected to be collected within the subsequent year are the loans and special assessments.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 9 - LOANS RECEIVABLE**

Loans receivable represent low interest loans for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant program. The loans have an annual interest rate of 3-9.25 percent and are repaid over periods ranging from five to thirty years. A summary of the changes in loans receivable during 2004 follows:

	<u>Balance</u> <u>12/31/03</u>	<u>New</u> <u>Loans</u>	<u>Repayments</u>	<u>Balance</u> <u>12/31/04</u>
<u>Special Revenue Fund</u>				
CDBG				
Individual Loans	\$ 29,615	\$ 1,328	\$ (12,240)	\$ 18,703
Business Loans	<u>1,359,221</u>	<u>37,274</u>	<u>(170,739)</u>	<u>1,225,756</u>
Total	<u>\$ 1,388,836</u>	<u>\$ 38,602</u>	<u>\$(182,979)</u>	<u>\$ 1,244,459</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 10 - CAPITAL ASSETS**

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

	Balance 12/31/03	Additions	Disposals	Balance 12/31/04
<b><u>Governmental Activities:</u></b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,851,561	\$ 30,000	\$ -	\$ 1,881,561
Construction in progress	<u>1,209,056</u>	<u>743,065</u>	<u>(1,209,056)</u>	<u>743,065</u>
Total capital assets, not being depreciated	<u>3,060,617</u>	<u>773,065</u>	<u>(1,209,056)</u>	<u>2,624,626</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	945,963	1,283,516	-	2,229,479
Buildings and improvements	1,293,454	12,778	-	1,306,232
Machinery and equipment	610,585	9,137	(11,900)	607,822
Vehicles	2,111,029	385,719	(75,222)	2,421,526
Infrastructure	<u>14,016,924</u>	<u>449,400</u>	<u>-</u>	<u>14,466,324</u>
Total capital assets, being depreciated	<u>18,977,955</u>	<u>2,140,550</u>	<u>(87,122)</u>	<u>21,031,383</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(395,540)	(101,682)	-	(497,222)
Buildings and improvements	(693,364)	(32,499)	-	(725,863)
Machinery and equipment	(310,485)	(51,290)	595	(361,180)
Vehicles	(1,570,845)	(133,429)	70,696	(1,633,578)
Infrastructure	<u>(4,152,333)</u>	<u>(602,125)</u>	<u>-</u>	<u>(4,754,458)</u>
Total accumulated depreciation	<u>(7,122,567)</u>	<u>(921,025)</u>	<u>71,291</u>	<u>(7,972,301)</u>
Total capital assets, being depreciated, net	<u>11,855,388</u>	<u>1,219,525</u>	<u>(15,831)</u>	<u>13,059,082</u>
Governmental activities capital assets, net	<u>\$14,916,005</u>	<u>\$1,992,590</u>	<u>\$ (1,224,887)</u>	<u>\$15,683,708</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 10 - CAPITAL ASSETS - (Continued)**

<b><u>Business-type Activities:</u></b>	Balance <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,194,470	\$ -	\$ -	\$ 1,194,470
Total capital assets, not being depreciated	<u>1,194,470</u>	<u>-</u>	<u>-</u>	<u>1,194,470</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	4,969,251	-	-	4,969,251
Buildings and improvements	5,117,459	-	-	5,117,459
Machinery and equipment	9,924,678	125,593	(17,919)	10,032,352
Vehicles	2,113,096	19,259	(16,936)	2,115,419
Infrastructure	<u>15,674,379</u>	<u>255,944</u>	<u>-</u>	<u>15,930,323</u>
Total capital assets, being depreciated	<u>37,798,863</u>	<u>400,796</u>	<u>(34,855)</u>	<u>38,164,804</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,739,895)	(177,338)	-	(1,917,233)
Buildings and improvements	(3,230,917)	(127,462)	-	(3,358,379)
Machinery and equipment	(7,297,430)	(242,078)	17,919	(7,521,589)
Vehicles	(1,498,285)	(149,843)	16,936	(1,631,192)
Infrastructure	<u>(5,528,672)</u>	<u>(416,540)</u>	<u>-</u>	<u>(5,945,212)</u>
Total accumulated depreciation	<u>(19,295,199)</u>	<u>(1,113,261)</u>	<u>34,855</u>	<u>(20,373,605)</u>
Total capital assets, being depreciated, net	<u>18,503,664</u>	<u>(712,465)</u>	<u>-</u>	<u>17,791,199</u>
Business-type activities capital assets, net	<u>\$ 19,698,134</u>	<u>\$ (712,465)</u>	<u>\$ -</u>	<u>\$ 18,985,669</u>



**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 10 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

General government	\$ 75,971
Security of persons and property	88,126
Public health and welfare	714
Transportation	633,520
Community environment	3,714
Leisure time activity	114,253
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>4,727</u>
Total depreciation expense - governmental activities	<u><u>\$ 921,025</u></u>

**NOTE 11 - COMPENSATED ABSENCES**

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

City employees earn vacation at varying rates depending on length of service and standard work week. Current policy credits vacation leave on the employee's anniversary date. Employees are paid for 100 percent of accumulated unused vacation leave upon termination.

Sick leave is earned at various rates as defined by City policy and union contracts. Payment of accrued unused sick leave is made to each employee having ten or more years of continuous service with the City upon retirement under the applicable pension system. The maximum amount of sick leave that is paid upon retirement differs between the policies.

Compensatory leave for supervisors and police department employees is earned at a rate of one and one-half times the actual hours worked in excess of eight hours per day or in excess of the employee's regularly scheduled work week. Compensatory leave may accumulate throughout the year but any unused balance may not exceed forty hours as of December 31 of each year. Upon termination of employment, employees are entitled to receive, in cash, any remaining balance of unused compensatory time.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 12 - LONG-TERM OBLIGATIONS**

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

		Interest	Audited Balance			Balance	Amounts Due in
	Series	Rate	12/31/2003	Additions	Reductions	12/31/2004	One Year
<b>Governmental Activities:</b>							
<u>Special Assessment Bonds</u>							
Street Improvement	1999	4.50%	\$ 9,200	\$ -	\$ (9,200)	\$ -	\$ -
Street Improvement	2000	5.00%	42,000	-	(21,000)	21,000	21,000
Street Improvement	2001	4.50%	61,800	-	(20,600)	41,200	20,600
Street Improvement	2002	4.50%	77,600	-	(19,400)	58,200	19,400
Street Improvement	2003A	4.50%	48,480	-	(9,690)	38,790	9,690
Street Improvement	2003B	4.50%	34,230	-	(3,420)	30,810	3,420
Street Improvement	2004-1	4.50%	-	65,000	-	65,000	13,000
Street Improvement	2004-2	4.50%	-	27,000	-	27,000	5,400
Total Special Assessment Bonds			<u>273,310</u>	<u>92,000</u>	<u>(83,310)</u>	<u>282,000</u>	<u>92,510</u>
<u>Other Long-Term Obligations</u>							
Compensated Absences Payable			<u>235,165</u>	<u>181,960</u>	<u>(155,448)</u>	<u>261,677</u>	<u>57,851</u>
Total governmental activities, long-term obligations			<u>\$ 508,475</u>	<u>\$ 273,960</u>	<u>\$ (238,758)</u>	<u>\$ 543,677</u>	<u>\$ 150,361</u>

Special Assessment Bonds with Governmental Commitment

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

Compensated Absences Payable

Compensated absences are presented at net because it is not practical to determine the actual increases and decreases. The compensated absences liability will be paid from the fund from which the employees' salaries are paid.

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)**

Principal and interest requirements to retire the governmental activities long-term obligations outstanding at December 31, 2004, were as follows:

<u>Year</u>	<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 92,510	\$ 12,795	\$ 105,305
2006	71,520	8,528	80,048
2007	50,920	5,309	56,229
2008	31,520	3,017	34,537
2009	21,820	1,599	23,419
2010 - 2013	<u>13,710</u>	<u>1,543</u>	<u>15,253</u>
Total	<u>\$282,000</u>	<u>\$32,791</u>	<u>\$ 314,791</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)**

	<u>Interest Rate</u>	<u>Audited Balance 12/31/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2004</u>	<u>Amounts Due in One Year</u>
<b>Business-type Activities:</b>						
<u>Revenue Bonds</u>						
Waterworks	4.40-6.65%	\$ 850,000	\$ -	\$ (80,000)	\$ 770,000	\$ 85,000
Sanitary Sewer System Refunding	4.75-5.15%	<u>1,470,000</u>	<u>-</u>	<u>(220,000)</u>	<u>1,250,000</u>	<u>230,000</u>
Total Revenue Bonds		<u>2,320,000</u>	<u>-</u>	<u>(300,000)</u>	<u>2,020,000</u>	<u>315,000</u>
<u>Mortgage Revenue Bonds</u>						
1996 Electric Mortgage						
Revenue Refunding bonds	4.75-5.30%	2,271,250	-	(2,271,250)	-	-
1991 Electric Mortgage						
Revenue Bonds	4.40-6.65%	<u>793,750</u>	<u>-</u>	<u>(793,750)</u>	<u>-</u>	<u>-</u>
Total Mortgage Revenue Bonds		<u>3,065,000</u>	<u>-</u>	<u>(3,065,000)</u>	<u>-</u>	<u>-</u>
<u>General Obligation Bonds</u>						
Electric-OMEGA JV2	3.81%	<u>1,727,918</u>	<u>-</u>	<u>(67,944)</u>	<u>1,659,974</u>	<u>70,799</u>
<u>Other Long-Term Obligations</u>						
Compensated Absences Payable		358,704	246,488	(227,550)	377,642	81,375
Landfill Closure/Postclosure Costs		<u>3,922,845</u>	<u>-</u>	<u>(405,975)</u>	<u>3,516,870</u>	<u>-</u>
Total Other Long-Term Obligations		<u>4,281,549</u>	<u>246,488</u>	<u>(633,525)</u>	<u>3,894,512</u>	<u>81,375</u>
Total business-type activities, long-term		<u>\$11,394,467</u>	<u>\$246,488</u>	<u>\$ (4,066,469)</u>	\$ 7,574,486	<u>\$ 467,174</u>
Less: Unamortized Loss on Refunding					<u>(128,707)</u>	
Total on statement of net assets					<u>\$ 7,445,779</u>	

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)**

Revenue Bonds

The revenue bonds are liabilities of the Water and Sewer enterprise funds and pledge their respective revenues for repayment. The bonds also pledge the full faith and credit and taxing authority of the City in the event the enterprise funds revenues are not sufficient to meet the principal and interest requirements. The 1996 Sewer Revenue Refunding Bonds are reported in the Statement of Net Assets net of the unamortized loss on advanced refunding of \$128,707.

The Water Revenue Bonds include serial and term bonds. The term bonds maturing on December 1, 2011, are subject to mandatory redemption prior to maturity, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

<u>Year</u>	<u>Amount</u>
2005	\$ 85,000
2006	100,000
2007	105,000
2008	110,000
2009	115,000
2010	125,000
2011	130,000

The Water Revenue Bonds have optional redemption provisions which, at the sole option of the City, are callable either in whole or in part, in multiples of \$5,000, at the following redemption prices plus accrued interest:

**Redemption Dates**

**Redemption Prices**

December 1, 2003, and thereafter

100%

Mortgage Revenue Bonds

The Electric Mortgage Revenue Refunding Bonds, Series 1996, which carried interest rates ranging from 4.75% to 5.30% and had a balance of \$2,271,250 as of December 31, 2003, were defeased during fiscal 2004 and have been removed from the basic financial statements. The remainder of the unamortized accounting loss, which had a balance of \$239,211 as of December 31, 2003, was also recognized during fiscal 2004 and, therefore, has been removed from the basic financial statements. The assets used to defease the Electric Mortgage Revenue Refunding Bonds, Series 1996, were placed in an irrevocable trust for payment of the bonds when due. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the basic financial statements.

The Electric Mortgage Revenue Bonds, Series 1991, which carried interest rates ranging from 4.40% to 6.65% and had a balance of \$793,750 as of December 31, 2003, were defeased during fiscal 2004 and have been removed from the basic financial statements. The remainder of the unamortized bond issuance costs, which had a balance of \$104,934 as of December 31, 2003, was also recognized during fiscal 2004 and, therefore, has been removed from the basic financial statements.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)**

Defeased Debt

In 1991, the City advance refunded revenue and mortgage revenue bonds, in the amount of \$2,645,000 and \$3,540,000, respectively. The proceeds of the bonds and other assets were placed in an irrevocable trust for the payment of the bonds when due. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the City's financial statements. At December 31, 2004, revenue and mortgage revenue bonds, in the amount of \$1,615,000 and \$2,410,000, were outstanding.

Reconciliation of Business-type Obligations

A reconciliation of the above schedule to the amounts reported on the Statement of Net Assets follows:

Business-type activities

Total long-term obligations as stated above	\$ 7,574,486
Less: Unamortized loss on advance refunding - sewer	<u>(128,707)</u>
 Total long-term liabilities reported on the Statement of Net Assets	 \$ <u>7,445,779</u>

Legal Debt Margin

The City's voted and unvoted legal debt margins were \$14,779,150 and \$7,719,333, respectively, at December 31, 2004.

Principal and interest requirements to retire the business-type activities long-term obligations outstanding at December 31, 2004, were as follows:

	<u>Revenue Bonds</u>		
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 315,000	\$ 114,775	\$ 429,775
2006	345,000	98,083	443,083
2007	365,000	78,815	443,815
2008	380,000	58,442	438,442
2009	360,000	37,223	397,223
2010-2011	<u>255,000</u>	<u>25,603</u>	<u>280,603</u>
Total	<u>\$ 2,020,000</u>	<u>\$ 412,941</u>	<u>\$ 2,432,941</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 13 - SHORT-TERM OBLIGATIONS**

Short-term obligations activity for the year ended December 31, 2004, was as follows:

			Audited				Amounts
	Interest		Balance			Balance	Due in
<u>Series</u>	<u>Rate</u>		<u>12/31/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2004</u>	<u>One Year</u>
<b>Governmental Activities:</b>							
<u>Bond Anticipation Notes</u>							
General Purpose	2003	1.50%	\$ 1,000,000	\$ -	\$ (1,000,000)	\$ -	\$ -
General Purpose	2004	1.95%	-	750,000	-	750,000	750,000
Street Program	2003	1.60%	78,000	-	(78,000)	-	-
Street Program	2004	2.45%	-	174,000	-	174,000	174,000
West South Street Issue II Project	2003	1.79%	<u>37,000</u>	<u>-</u>	<u>(37,000)</u>	<u>-</u>	<u>-</u>
Total governmental activities, short-term obligations			<u>\$ 1,115,000</u>	<u>\$ 924,000</u>	<u>\$ (1,115,000)</u>	<u>\$ 924,000</u>	<u>\$ 924,000</u>

Bond Anticipation Note

The general obligation note is supported by the full faith and credit of the City. The City issued a \$750,000 general obligation note during 2004. The proceeds were used finance the construction of a new swimming pool.

			Interest		Balance		Balance
<u>Series</u>	<u>Rate</u>			<u>Additions</u>	<u>Reductions</u>	<u>12/31/03</u>	<u>12/31/04</u>
<b>Business-Type Activities:</b>							
<u>Enterprise Funds</u>							
Land Improvement Bond							
Anticipation Note	2003	1.20%	\$ 2,500,000	\$ -	\$ (2,500,000)	\$ -	\$ -
Land Improvement Bond							
Anticipation Note	2004	1.90%	-	2,500,000	-	2,500,000	-
Sanitary Improvement Bond							
Anticipation Note	2003	1.40%	1,082,000	-	(1,082,000)	-	-
Sanitary Improvement Bond							
Anticipation Note	2004	1.97%	<u>-</u>	<u>1,017,000</u>	<u>-</u>	<u>1,017,000</u>	<u>-</u>
Total notes payable			<u>\$ 3,582,000</u>	<u>\$ 3,517,000</u>	<u>\$ (3,582,000)</u>	<u>\$ 3,517,000</u>	<u>-</u>

According to Ohio law, 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. The City's notes are bond anticipation notes and are supported by the full faith and credit of the City. The liability for all notes is presented in the fund which received the proceeds and have a maturity of one year.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 14 - RISK MANAGEMENT**

**A. Property and Liability**

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. The City has entered into contracts with various insurance agencies for the following coverage and deductibles:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General Liability	\$ 5,000,000	\$5,000
Police Professional Liability	5,000,000	5000
Public Official Liability	5,000,000	5000
Automobile Fleet Liability	5,000,000	5000
Buildings and Contents	60,844,945	1000
Boiler and Machinery	10,000,000	various
Inland Marine (EDP Floater)	175,000	250
Equipment	921,704	250

There have been no significant reductions in insurance coverage from 2003, and no insurance settlement has exceeded insurance coverage during the last three years.

All employees of the City are covered by a blanket bond, while certain individuals in policy making roles are covered by separate, higher limit bond coverage.

**B. Employee Medical Benefits**

The City has elected to provide employee health insurance benefits through a partially self-insured program. The City established a Self-Insurance internal service fund to account for and finance the cost of the program. All funds of the City participate in the self-insurance program and make payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior- and current-year claims. For 2004, the City utilized a third party administrator, Anthem Benefit Administrators, to process all claims. The monthly premiums are \$231.80 for single coverage and \$544.67 for family coverage; the employee's share is \$40.92 and \$118.16, respectively. All premiums paid to the Self-Insurance internal service fund were deposited with the claims servicing pool. The cost to the City for the third party administrator is \$29.55 per employee per month.

Under the City's self-insured program, the Self-Insurance internal service fund pays claims up to a maximum of \$35,000 per individual per year and claims in excess of \$1,000,000 per individual for their lifetime. The City purchases stop-loss coverage for claims in excess of coverage provided by the fund. Settled claims have not exceeded the stop-loss coverage for the last three years.

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2004, is estimated by the third party administrator at \$117,076. The changes in the claims liability for 2004 and 2003 were as follows:



**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 14 - RISK MANAGEMENT - (Continued)**

<u>Year</u>	<u>Balance</u>	<u>Estimates</u>	<u>Payments</u>	<u>Balance</u>
2004	\$ 49,046	\$ 883,487	\$(815,457)	\$ 117,076
2003	139,223	574,628	(664,805)	49,046

**C. Workers' Compensation**

For 2004, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the state based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of CompManagement provides administrative, cost control, and actuarial services to the Plan. Each year, the City pays an enrollment fee to the Plan to cover the costs of administering the program.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2004 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2004. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2003. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$505,140, \$488,269, and \$458,665, respectively; 97.91% has been contributed for 2004 and 100% for 2003 and 2002. \$10,541 represents the unpaid contribution for 2004, and is recorded as a liability within the respective funds.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2004, 2003, and 2002 were \$277,066, \$265,185, and \$254,394, respectively; 74.55% has been contributed for 2004 and 100% for the years 2003 and 2002. \$70,521, representing the unpaid contributions for 2004, is recorded as a liability within the respective funds.

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$186,399. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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

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

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**B. Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F 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 is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2004. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits was \$54,998 for police and \$44,746 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 (the latest information available), was 13,662 for police and 10,474 for firefighters.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

While the City is 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 and Actual (Non-GAAP Budgetary Basis) presented 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 and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for the general fund.

<b>Net Change in Fund Balance</b>	
	<u>General</u>
Budget Basis	\$ (248,159)
Net adjustment for revenue accruals	(369,653)
Net adjustment for expenditure accruals	66,519
Net adjustment for other financing sources and uses	401,721
Adjustment for encumbrances	<u>103,844</u>
GAAP basis	<u>\$ (45,728)</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 18 - RESERVED NET ASSETS AND RESTRICTED ASSET ACCOUNTS**

Fund assets, whose use are restricted under the bond indentures to replacement and improvements, operations, refundable electric customer deposits and debt service requirements, are presented as restricted assets on the combined balance sheet. These assets are further segregated between those held by the City and those held by the trustees. The City has permissive tax monies on deposit with Auglaize County in the amounts of \$68,273. Restricted assets relating to each of the bond issues were as follows at December 31, 2004.

Restricted Net Assets and Restricted Assets (Cash)

	<u>Water Revenue</u>	<u>Sewer Revenue Refunding</u>	<u>Electric Fund</u>	<u>Totals</u>
Restricted net assets held by the City for:				
Operations	\$429,938	\$326,610	\$ -	\$ 756,548
Replacements and improvements	774,571	468,253	-	1,242,824
Restricted assets (cash):				
Bond current debt service	11,470	24,832	-	36,302
Bond future debt service	134,802	276,650	-	411,452
Refundable deposits	-	-	191,384	191,384

**NOTE 19 - LANDFILL CLOSURE/POSTCLOSURE COSTS**

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure costs will be paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The City is in the process of closing the landfill. The landfill closure and postclosure liability of \$3,516,870 at December 31, 2004, represents the cumulative amount for closure and postclosure care. The amounts are based on what it would cost to perform all closure and postclosure care in 2004. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to provide assurances that financial resources will be available to provide for postclosure care and remediation or containment of environmental hazards at the landfill. The City has not been in compliance with guidelines from the Ohio Environmental Protection Agency since 1997, the last year the City passed the financial accountability test proving the ability to self-fund these future costs.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 20 - CONTRACTUAL COMMITMENTS**

As of December 31, 2004, the City had the following contractual commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Contract Balance</u>
Celina Landfill	\$ 180,000	\$ 161,472	\$ 18,528
Clemans, Nelson & Assoc	25,000	10,289	14,711
Hull and Associates	131,400	94,479	36,921
Oxford Mining Co., Inc	745,000	541,517	203,483
PAB Construction	1,148,147	666,073	482,074
Test America, Inc	22,100	21,212	888
Vorys, Sater, Seymour and	<u>51,755</u>	<u>-</u>	<u>51,755</u>
Total Contractual Commitments	<u>\$ 2,303,402</u>	<u>\$ 1,495,042</u>	<u>\$ 808,360</u>

**NOTE 21 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2004.

**B. Litigation**

The City of St. Marys is a party to several 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 adverse effect, if any, on the financial condition of the City.



# JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Westerville, OH 43082

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

Mayor and Members of Council  
City of St. Marys  
101 East Spring Street  
St. Marys, OH 45885

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys, Auglaize County, Ohio as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of St. Marys internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the City of St. Marys in a separate letter dated June 17, 2005.

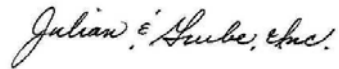
### Compliance and Other Matters

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



Mayor and Members of Council  
City of St. Marys

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
June 17, 2005





**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CITY OF ST. MARYS**

**AUGLAIZE 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  
AUGUST 25, 2005**