

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

Basic Financial Statements
(Audited)

For The Year Ended
December 31, 2007

DOUGLAS M. RIESEN, CITY AUDITOR



Mary Taylor, CPA
Auditor of State

City Council
City of St. Marys
101 East Spring Street
St. Marys, OH 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, 2007 through December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 8, 2008

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

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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, as of and for the year ended December 31, 2007, which collectively comprise the City of St. Marys' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of St. Marys' 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 the Comptroller General of the United States' *Government Auditing Standards*. 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, 2007, 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 5, 2008, on our consideration of the City of St. Marys' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis 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.

Julian & Grube, Inc.
June 5, 2008

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

The management's 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, 2007. 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 2007 are as follows:

- The total net assets of the City increased \$5,323,659. Net assets of governmental activities increased \$1,635,422 or 5.29% over 2006 and net assets of business-type activities increased \$3,688,237 or 16.51% from 2006.
- General revenues accounted for \$7,304,340 of total governmental activities revenue. Program specific revenues accounted for \$1,571,949 or 17.71% of total governmental activities revenue.
- The City had \$6,384,659 in expenses related to governmental activities; \$1,571,949 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$4,812,710 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$7,304,340.
- The general fund had revenues of \$5,503,018 in 2007. This represents a decrease of \$50,030 from 2006 revenues. The expenditures and other financing uses of the general fund, which totaled \$5,049,441 in 2007, decreased \$299,014 from 2006. The net increase in fund balance for the general fund was \$466,325 or 10.12%.
- The special assessment bond retirement fund had revenues and other financing sources of \$160,871 in 2007. The expenditures and other financing uses of the special assessment bond retirement fund totaled \$211,504 in 2007. The net decrease in fund balance for the special assessment bond retirement fund was \$50,633 or 16.63%.
- The voted income tax fund had revenues of \$1,571,091 in 2007. This represents an increase of \$112,752 from 2006 revenues. The expenditures of the voted income tax fund, which totaled \$2,454,007 in 2007, increased \$1,476,700 from 2006. The net decrease in fund balance for the voted income tax fund was \$882,916 or 25.24%.
- The capital improvements fund had \$272,394 in revenues for 2007. The expenditures of the capital improvements fund totaled \$83,762 in 2007. The net increase in fund balance for the capital improvements fund was \$188,632 or 7.40%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, Electric and Refuse enterprise funds, increased in 2007 by \$3,688,237. This increase in net assets was due primarily to operating income and transfers.
- In the general fund, the actual revenues came in \$592,388 lower than they were in the final budget and actual expenditures were \$304,168 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues did not change from the original to the final budget. Budgeted expenditures decreased \$2,143,866 from the original to the final budget as a result of an anticipated increase in wages and benefits calculated in the original budget.

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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.

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 2007?" 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.

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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 focus on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

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 Special Assessment Bond Retirement Fund, the Voted Income Tax fund and the capital improvements 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 - 29 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 30 - 37 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 38 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 39 - 73 of this report.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

Government-Wide Financial Analysis

This is the City's government-wide financial statements using the full accrual basis of accounting. The table below provides a summary of the City's net assets for 2007 and 2006:

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Assets</u>						
Current and other assets	\$ 16,356,951	\$ 16,345,400	\$ 17,469,577	\$ 13,937,853	\$ 33,826,528	\$ 30,283,253
Capital assets	<u>17,775,325</u>	<u>16,227,184</u>	<u>18,179,818</u>	<u>18,566,264</u>	<u>35,955,143</u>	<u>34,793,448</u>
Total assets	<u>34,132,276</u>	<u>32,572,584</u>	<u>35,649,395</u>	<u>32,504,117</u>	<u>69,781,671</u>	<u>65,076,701</u>
<u>Liabilities</u>						
Long-term liabilities	355,776	327,312	5,916,117	6,183,296	6,271,893	6,510,608
Other liabilities	<u>1,235,358</u>	<u>1,339,552</u>	<u>3,704,225</u>	<u>3,980,005</u>	<u>4,939,583</u>	<u>5,319,557</u>
Total liabilities	<u>1,591,134</u>	<u>1,666,864</u>	<u>9,620,342</u>	<u>10,163,301</u>	<u>11,211,476</u>	<u>11,830,165</u>
<u>Net Assets</u>						
Invested capital assets, net of related debt	17,658,325	15,792,184	13,917,994	13,615,117	31,576,319	29,407,301
Restricted	9,303,810	9,657,272	1,066,266	868,793	10,370,076	10,526,065
Unrestricted	<u>5,579,007</u>	<u>5,456,264</u>	<u>11,044,793</u>	<u>7,856,906</u>	<u>16,623,800</u>	<u>13,313,170</u>
Total net assets	<u>\$ 32,541,142</u>	<u>\$ 30,905,720</u>	<u>\$ 26,029,053</u>	<u>\$ 22,340,816</u>	<u>\$ 58,570,195</u>	<u>\$ 53,246,536</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the City's assets exceeded liabilities by \$58,570,195. At year-end, net assets were \$32,541,142 and \$26,029,053 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 51.53% 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, 2007, were \$17,658,325 and \$13,917,994 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, 2007, 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.

A portion of the City's net assets, \$10,370,076, 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 \$5,579,007 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

The table below shows the changes in net assets for fiscal year 2007 and 2006.

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 899,043	\$ 627,751	\$ 16,774,868	\$ 15,850,165	\$ 17,673,911	\$ 16,477,916
Operating grants and contributions	426,573	407,498	-	-	426,573	407,498
Capital grants and contributions	246,333	107,101	91,563	166,097	337,896	273,198
Total program revenues	<u>1,571,949</u>	<u>1,142,350</u>	<u>16,866,431</u>	<u>16,016,262</u>	<u>18,438,380</u>	<u>17,158,612</u>
General revenues:						
Property taxes	1,281,237	1,273,751	-	-	1,281,237	1,273,751
Income taxes	4,429,184	4,122,273	-	-	4,429,184	4,122,273
Other local taxes	-	-	-	-	-	-
Unrestricted grants	844,211	615,854	481,100	-	1,325,311	615,854
Interest	656,848	748,991	338,835	288,499	995,683	1,037,490
Miscellaneous	92,860	117,440	11,353	7,335	104,213	124,775
Total general revenues	<u>7,304,340</u>	<u>6,878,309</u>	<u>831,288</u>	<u>295,834</u>	<u>8,135,628</u>	<u>7,174,143</u>
Total revenues	<u>8,876,289</u>	<u>8,020,659</u>	<u>17,697,719</u>	<u>16,312,096</u>	<u>26,574,008</u>	<u>24,332,755</u>
Expenses:						
General government	1,309,383	1,123,504	-	-	1,309,383	1,123,504
Security of persons and property	2,967,425	2,300,612	-	-	2,967,425	2,300,612
Public health and welfare	2,773	7,537	-	-	2,773	7,537
Transportation	1,590,529	1,423,515	-	-	1,590,529	1,423,515
Community environment	60,528	82,167	-	-	60,528	82,167
Leisure time activity	409,977	324,005	-	-	409,977	324,005
Other	12,281	-	-	-	12,281	-
Interest and fiscal charges	31,763	34,831	-	-	31,763	34,831
Water	-	-	1,263,746	1,346,116	1,263,746	1,346,116
Sewer	-	-	1,640,868	1,114,001	1,640,868	1,114,001
Electric	-	-	12,978,297	12,720,375	12,978,297	12,720,375
Refuse	-	-	1,028,893	989,404	1,028,893	989,404
Total expenses	<u>6,384,659</u>	<u>5,296,171</u>	<u>16,911,804</u>	<u>16,169,896</u>	<u>23,296,463</u>	<u>21,466,067</u>
Increase (decrease) in net assets before transfers	2,491,630	2,724,488	785,915	142,200	3,277,545	2,866,688
Transfers	(856,208)	(828,402)	856,208	828,402	-	-
Special item:						
Landfill judgment	-	-	2,046,114	-	2,046,114	-
Change in net assets	1,635,422	1,896,086	3,688,237	970,602	5,323,659	2,866,688
Net assets at beginning of year	<u>30,905,720</u>	<u>29,009,634</u>	<u>22,340,816</u>	<u>21,370,214</u>	<u>53,246,536</u>	<u>50,379,848</u>
Net assets at end of year	<u>\$ 32,541,142</u>	<u>\$ 30,905,720</u>	<u>\$ 26,029,053</u>	<u>\$ 22,340,816</u>	<u>\$ 58,570,195</u>	<u>\$ 53,246,536</u>

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

Governmental Activities

Governmental activities net assets increased \$1,635,422 in 2007. This increase is the result of an increase in revenues and expenses due to the City's conservative budgeting.

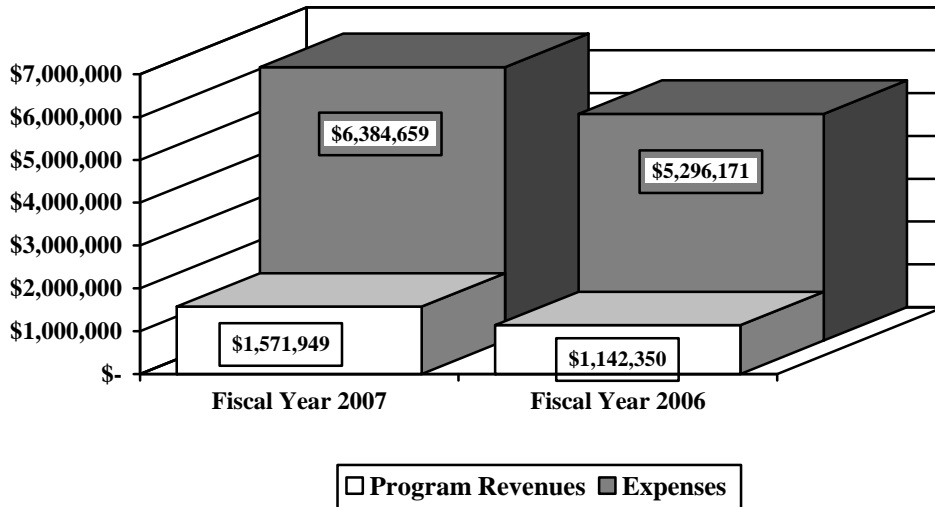
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$2,967,425 of the total expenses of the City. These expenses were partially funded by \$311,256 in direct charges to users of the services. Transportation expenses totaled \$1,590,529. Transportation expenses were partially funded by \$300,476 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$426,573 in operating grants and contributions and \$246,333 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$359,415, subsidized transportation programs, and \$4,456 subsidized security of persons and property. Of the total capital grants and contributions, \$117,081, subsidized transportation programs and \$3,067 subsidized security of persons and property.

General revenues totaled \$7,304,340, and amounted to 82.29% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$5,710,421. 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 \$844,211.

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

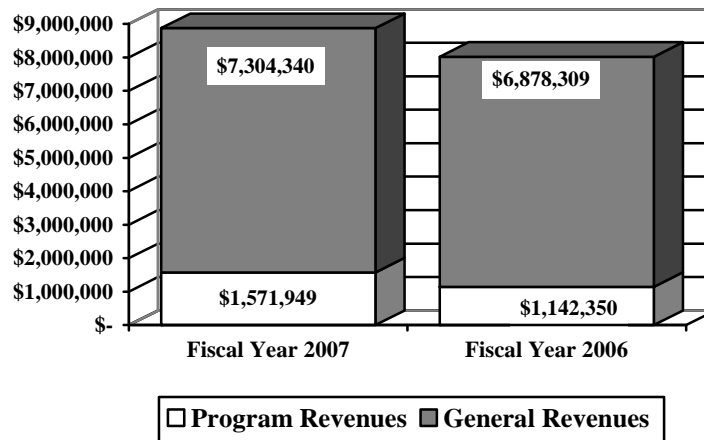
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses:				
General government	\$ 1,309,383	\$ 1,035,411	\$ 1,123,504	\$ 992,217
Security of persons and property	2,967,425	2,648,646	2,300,612	2,044,150
Public health and welfare	2,773	2,481	7,537	6,649
Transportation	1,590,529	813,557	1,423,515	909,299
Community environment	60,528	(5,824)	82,167	80,151
Leisure time activity	409,977	274,395	324,005	203,069
Other	12,281	12,281	-	-
Interest and fiscal charges	31,763	31,763	34,831	(81,714)
Total expenses	<u>\$ 6,384,659</u>	<u>\$ 4,812,710</u>	<u>\$ 5,296,171</u>	<u>\$ 4,153,821</u>

The dependence upon general revenues for governmental activities is apparent, with 75.38% of expenses supported through taxes and other general revenues.

Governmental Activities - General and Program Revenues



Business-Type Activities

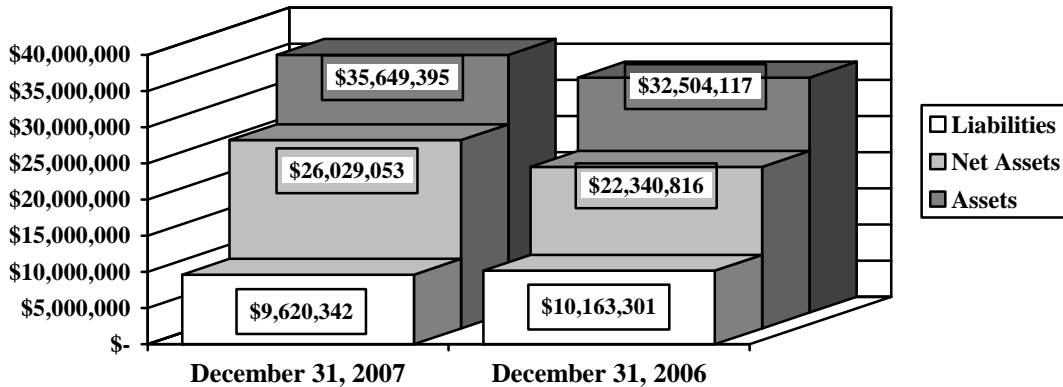
Business-type activities include the water, sewer, electric and refuse enterprise funds. These programs had program revenues of \$16,866,431, general revenues of \$831,288, a special item of a landfill judgment in the amount of \$2,046,114, transfers in of \$856,208 and expenses of \$16,911,804 for 2007.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business - Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on short-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 pages 23 - 24) reported a combined fund balance of \$13,657,590 which is \$23,627 lower than last year's total of \$13,681,217. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2007 for all major and nonmajor governmental funds.

	Fund Balances (Deficit) <u>12/31/07</u>	Fund Balances (Deficit) <u>12/31/06</u>	Increase (Decrease)
Major Funds:			
General	\$ 5,074,184	\$ 4,607,859	\$ 466,325
Special assessment bond retirement	(355,121)	(304,488)	(50,633)
Voted income tax	2,615,752	3,498,668	(882,916)
Recreational Facility Construction	2,737,978	2,549,346	188,632
Other Nonmajor Governmental Funds	<u>3,584,797</u>	<u>3,329,832</u>	<u>254,965</u>
Total	<u>\$ 13,657,590</u>	<u>\$ 13,681,217</u>	<u>\$ (23,627)</u>

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

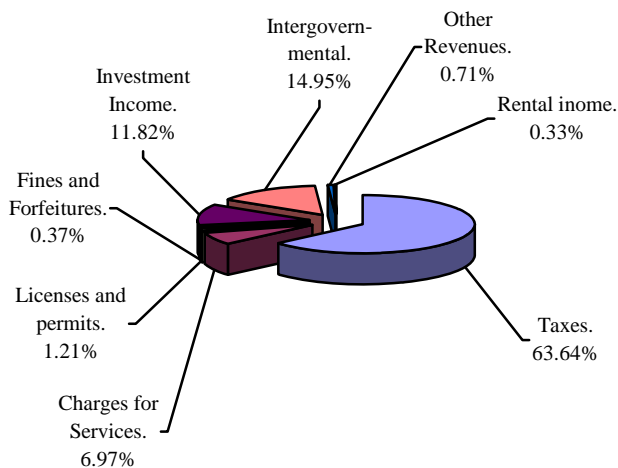
General Fund

The City's general fund balance increased \$466,325 primarily due to the net effect of a decrease in revenues, a decrease in expenses, and a decrease in transfers out. The table that follows assists in illustrating the revenues of the general fund.

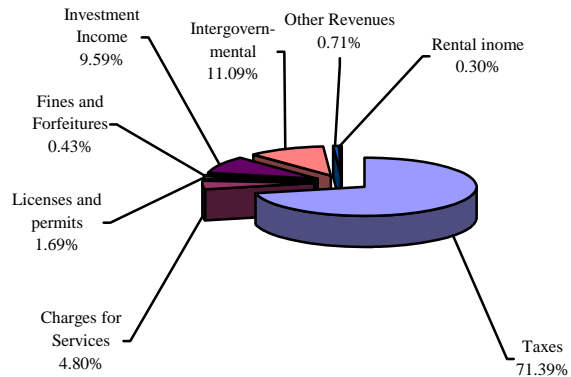
	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
Revenues			
Taxes	\$ 3,502,124	\$ 3,963,885	(11.65) %
Charges for services	383,320	266,422	43.88 %
Licenses and permits	66,480	93,762	(29.10) %
Fines and forfeitures	20,496	24,117	(15.01) %
Investment income	650,693	532,779	22.13 %
Rental income	18,225	16,917	7.73 %
Intergovernmental	822,800	615,841	33.61 %
Other	<u>38,880</u>	<u>39,325</u>	(1.13) %
Total	<u>\$ 5,503,018</u>	<u>\$ 5,553,048</u>	(0.90) %

Tax revenues decreased \$461,761 or 11.65% from the prior year. This decrease is attributed to a decrease in income 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 2006.

Revenues - Fiscal Year 2007



Revenues - Fiscal Year 2006



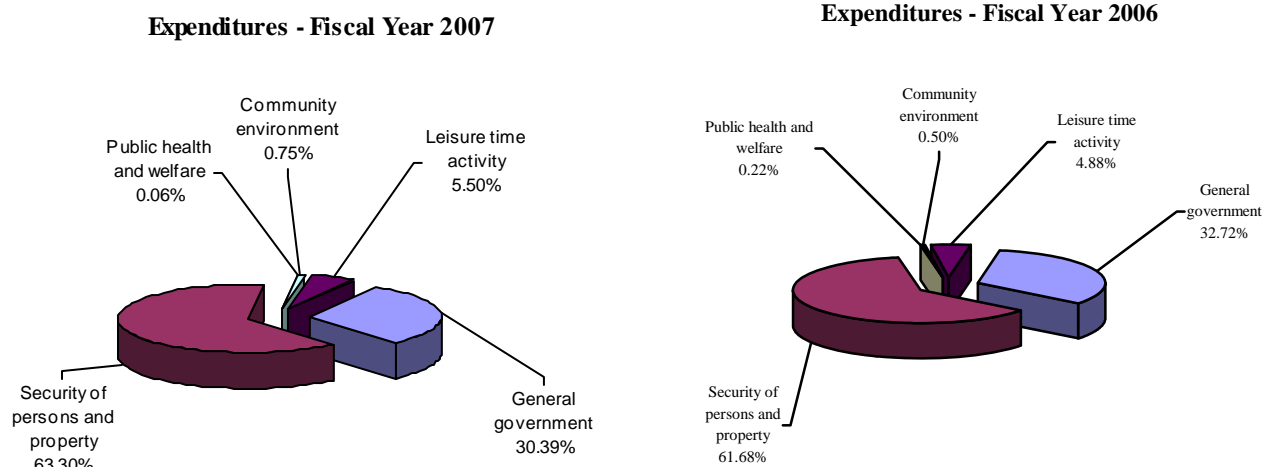
CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

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

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percent</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,120,922	\$ 1,076,259	4.15 %
Security of person and property	2,334,548	2,028,555	15.08 %
Public health and welfare	2,206	7,290	(69.74) %
Community environment	27,556	16,524	66.76 %
Leisure time activity	<u>203,021</u>	<u>160,488</u>	26.50 %
Total	<u>\$ 3,688,253</u>	<u>\$ 3,289,116</u>	12.14 %

General government expenditures increased by \$44,663 or 4.15%. This increase is attributed to an increase in accrued wages and benefits. All other expenditures remained comparable to 2006.



Special Assessment Bond Retirement Fund

The special assessment bond retirement fund had revenues and other financing sources of \$160,871 in 2007. The expenditures and other financing uses of the special assessment bond retirement fund totaled \$211,504 in 2007. The net decrease in fund balance for the special assessment bond retirement fund was \$50,633 or 16.63%.

Voted Income Tax Fund

The voted income tax fund had revenues of \$1,571,091 in 2007. This represents an increase of \$112,752 from 2006 revenues. The expenditures of the voted income tax fund, which totaled \$2,454,007 in 2007, increased \$1,476,700 from 2006. The net decrease in fund balance for the voted income tax fund was \$882,916 or 25.24%.

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

Capital Improvements Fund

The capital improvements fund had \$272,394 in revenue in 2007. The expenditures of the capital improvements fund totaled \$83,762 in 2007. The net increase in fund balance for the capital improvements fund was \$188,632 or 7.40%.

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 decreased \$2,143,866 from \$7,655,371 to \$5,511,505. Actual revenues of \$5,446,680 decreased from the final budgeted revenues by \$592,388. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures and other financing uses came in \$304,168 lower than the final budgeted amounts.

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 \$1,227,954 in 2007. This represents an increase of \$939 from 2006 operating revenues. The operating expenses of the water fund, which totaled \$1,270,489 in 2007, decreased \$70,162 from 2006. The increase in net assets for the water fund was \$17,729 or 0.29%.

Sewer Fund

The sewer fund had operating revenues of \$1,786,276 in 2007. This represents an increase of \$268,175 from 2006 operating revenues. The operating expenses of the sewer fund, which totaled \$1,609,775 in 2007, increased \$581,870 from 2006. The increase in net assets for the sewer fund was \$725,406 or 12.31%.

Electric Fund

The electric fund had operating revenues of \$12,894,352 in 2007. This represents an increase of \$659,674 from 2006 operating revenues. The operating expenses of the electric fund, which totaled \$12,776,509 in 2007, increased \$294,031 from 2006. The increase in net assets for the electric fund was \$957,642 or 7.84%.

Refuse Fund

The refuse fund had operating revenues of \$866,286 in 2007. This represents a decrease of \$5,085 from 2006 operating revenues. The operating expenses of the refuse fund, which totaled \$1,003,597 in 2007, increased \$58,197 from 2006. The refuse fund had a special item for a landfill judgment in the amount of \$2,046,114 in 2007. The increase in net assets for the refuse fund was \$1,942,152 or 99.25%.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

Capital Assets and Debt Administration

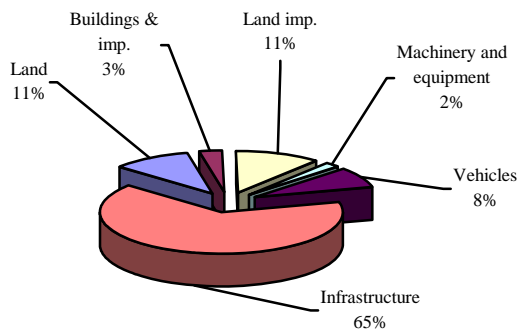
Capital Assets

At the end of fiscal 2007, the City had \$35,955,143 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. Of this total, \$17,775,325 was reported in governmental activities and \$18,179,818 was reported in business-type activities. The following table shows fiscal 2007 balances compared to 2006:

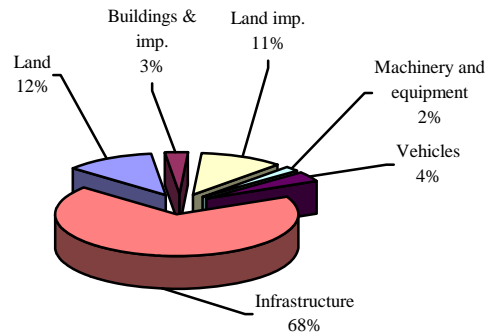
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 1,881,561	\$ 1,881,561	\$ 1,194,470	\$ 1,194,470	\$ 3,076,031	\$ 3,076,031
Land improvements	2,032,753	1,825,165	2,520,771	2,698,109	4,553,524	4,523,274
Buildings and improvements	516,142	544,178	1,444,424	1,574,821	1,960,566	2,118,999
Machinery and equipment	337,316	293,222	2,328,437	2,363,964	2,665,753	2,657,186
Vehicles	1,457,288	670,186	484,164	578,669	1,941,452	1,248,855
Infrastructure	<u>11,550,265</u>	<u>11,012,872</u>	<u>10,207,552</u>	<u>10,156,231</u>	<u>21,757,817</u>	<u>21,169,103</u>
Total	<u>\$ 17,775,325</u>	<u>\$ 16,227,184</u>	<u>\$ 18,179,818</u>	<u>\$ 18,566,264</u>	<u>\$ 35,955,143</u>	<u>\$ 34,793,448</u>

The following graphs show the breakdown of governmental capital assets by category for 2007 and 2006.

**Capital Assets - Governmental Activities
2007**



**Capital Assets - Governmental Activities
2006**

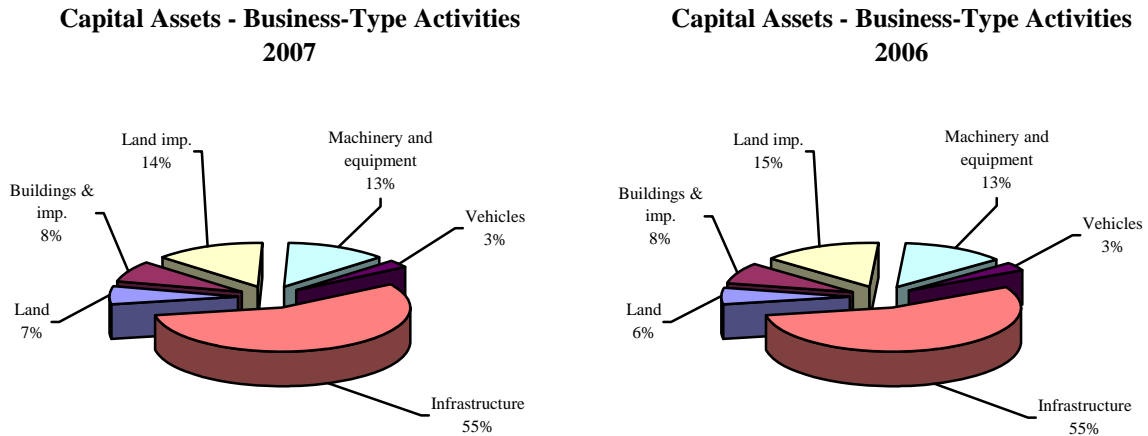


The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, right-of-way, street lighting, and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 65% 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, 2007**

The following graphs show the breakdown of business-type capital assets by category for 2007 and 2006.



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 55% 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

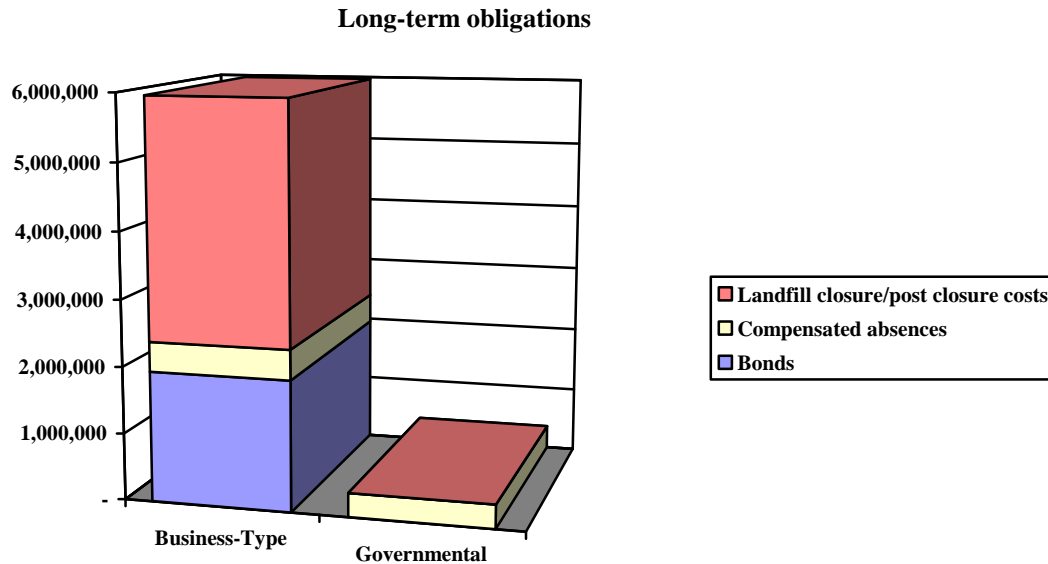
The City had the following long-term obligations outstanding at December 31, 2007 and 2006:

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Compensated absences	\$ 355,776	\$ 327,312
Total long-term obligations	<u>\$ 355,776</u>	<u>\$ 327,312</u>
	<u>Business-Type Activities</u>	
Revenue bonds	\$ 515,000	\$ 775,000
General obligation bonds	<u>1,438,441</u>	<u>1,515,330</u>
Total bonds	<u>1,953,441</u>	<u>2,290,330</u>
Compensated absences	444,953	413,384
Landfill closure/post closure costs	<u>3,570,750</u>	<u>3,559,380</u>
Total long-term obligation	<u>\$ 5,969,144</u>	<u>\$ 6,263,094</u>

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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



Economic Conditions and Outlook

One of the largest manufacturing plants in the City remains the Goodyear Tire & Rubber Company, with an employment of 430 employees at the local plant. Goodyear has kept the local Engineered Products 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, which is produced in Lima. The local Goodyear Engineered Plant recently sold to the Carlyle Group, which has renamed the facility Veyance Technologies. It is hoped that Veyance Technologies will invest funds to add new equipment and new employment for the future of the local plant.

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

Setex was the first Japanese company to call the City home when it started the production of automobile seats for Honda in the late 1980’s. Over the past 15 years, Setex has experienced tremendous growth, with employment levels increasing from the initial 65 employees to the current 525 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 450 employees today. AAP recently completed a major building expansion and investment in new machinery and equipment. The expansion project is totaled nearly \$23 million with 50 new employees expected to be hired. These 450 to 500 employees provide a key component of the stable industrial base in St. Marys.

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

The City also has other manufacturing industries that add stability to the local economy. Parker Hannifin Corporation, employing 175 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 an employment level near 130. In addition, the St. Marys Foundry, Inc., Pro-Pet, LLC, Classic Delight, Inc., MTO, and others combine to offer diverse manufacturing jobs for families in the City.

Joint Township District Memorial Hospital has just completed a multi-million dollar expansion project that will further enhance an already excellent level of health care for The City and the entire region. Joint Township District Memorial Hospital remains the top non-manufacturing sector employer with over 650 workers.

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

For the Future

The City 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. The City offers a lovely rural setting right in the heart of industrial America. Several major metropolitan areas including Columbus, Dayton, Toledo, and Ft. Wayne are within easy commuting distance. Almost two-thirds of the nation's population lives within a 500 mile radius, making the City a natural location to conduct business.

The City 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 the City dates back to the early 1800's when "canal fever" swept over Ohio. It provided the City 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. The City is a community of nearly 9,000 residents. The people embrace a lifestyle based on strong family values. Caring for and respecting our neighbors is a way of life. The police, fire, and EMS forces offer hometown security only experienced in a rural setting and utility services offered by the City are some of the most reliable and economical in the entire region.

City residents are proud of their past and look forward to the future with excitement and enthusiasm. Civic pride has been highlighted in the City 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 a historic canal boat, a wooden covered bridge, a grotto along the St. Marys River, and a Veteran's Memorial Walkway. St. Marys' people are "can do" people, taking strides to improve their community.

From the early canal days and into the 21st century, industry has found a home in the City. 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 over the past 15 years.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

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, 2007

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents.	\$ 12,661,686	\$ 10,648,039	\$ 23,309,725
Cash in segregated accounts	135,788	-	135,788
Receivables (net of allowances for uncollectibles):			
Income taxes	975,859	-	975,859
Real and other taxes	568,394	62,895	631,289
Accounts	98,444	1,487,502	1,585,946
Special assessments	496,828	905	497,733
Loans.	1,140,308	-	1,140,308
Accrued interest	6,674	2,650	9,324
Judgements	-	2,046,114	2,046,114
Internal balance.	(331,998)	331,998	-
Due from other governments	444,218	3,170	447,388
Prepayments	70,157	160,520	230,677
Materials and supplies inventory	73,908	589,111	663,019
Investment in joint venture	-	1,173,925	1,173,925
Unamortized bond issue costs	-	17,590	17,590
Restricted assets:			
Equity in pooled cash and cash equivalents	-	389,008	389,008
Deposits in segregated accounts.	-	324,382	324,382
Refundable deposits.	-	231,768	231,768
Cash with fiscal agent	16,685	-	16,685
Capital assets:			
Land	1,881,561	1,194,470	3,076,031
Depreciable capital assets, net	15,893,764	16,985,348	32,879,112
Total capital assets.	<u>17,775,325</u>	<u>18,179,818</u>	<u>35,955,143</u>
Total assets.	<u>34,132,276</u>	<u>35,649,395</u>	<u>69,781,671</u>

(continued)

CITY OF ST. MARYS, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Governmental Activities	Business-type Activities	Total
Liabilities:			
Accounts payable	\$ 32,301	\$ 886,875	\$ 919,176
Contracts payable	57,084	35,679	92,763
Retainage payable	20,316	-	20,316
Accrued wages and benefits	67,973	59,835	127,808
Due to other governments	150,527	65,573	216,100
Claims payable	227,038	-	227,038
Judgements payable	6,000	-	6,000
Unearned revenue	556,236	-	556,236
Accrued interest payable	883	20,050	20,933
Notes payable	117,000	2,379,000	2,496,000
Payable from restricted assets:			
Accrued interest payable	-	25,445	25,445
Refundable deposits	-	231,768	231,768
Long-term liabilities:			
Due within one year	73,272	434,785	508,057
Due in more than one year	282,504	5,481,332	5,763,836
Total liabilities	1,591,134	9,620,342	11,211,476
Net assets:			
Invested in capital assets, net of related debt	17,658,325	13,917,994	31,576,319
Restricted for:			
Capital projects	5,697,282	-	5,697,282
Debt service	114,749	-	114,749
Operations	-	467,721	467,721
Improvements and replacements	-	598,545	598,545
Transportation projects	1,254,072	-	1,254,072
Community improvements	2,195,477	-	2,195,477
Other purposes	42,230	-	42,230
Unrestricted	5,579,007	11,044,793	16,623,800
Total net assets	\$ 32,541,142	\$ 26,029,053	\$ 58,570,195

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Program Revenues			
	Expenses	Charges for Services	Operating and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 1,309,383	\$ 148,470	\$ -	\$ 125,502
Security of persons and property	2,967,425	311,256	4,456	3,067
Public health and welfare	2,773	292	-	-
Transportation.	1,590,529	300,476	359,415	117,081
Community environment	60,528	3,650	62,702	-
Leisure time activity	409,977	134,899	-	683
Other	12,281	-	-	-
Interest and fiscal charges.	31,763	-	-	-
Total governmental activities	<u>6,384,659</u>	<u>899,043</u>	<u>426,573</u>	<u>246,333</u>
Business-type Activities:				
Water	1,263,746	1,227,954	-	36,984
Sewer	1,640,868	1,786,276	-	54,579
Electric	12,978,297	12,894,352	-	-
Refuse	1,028,893	866,286	-	-
Total business-type activities	<u>16,911,804</u>	<u>16,774,868</u>	<u>-</u>	<u>91,563</u>
Total primary government	<u>\$ 23,296,463</u>	<u>\$ 17,673,911</u>	<u>\$ 426,573</u>	<u>\$ 337,896</u>

General Revenues:

Property taxes levied for:

- General operations.
- Special purposes.

Income taxes levied for:

- General operations.
- Capital projects

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues.

Transfers.

Special Item:

- Landfill judgment

Change in net assets.

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net Revenue (Expense) and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,035,411)	\$ -	\$ (1,035,411)
(2,648,646)	-	(2,648,646)
(2,481)	-	(2,481)
(813,557)	-	(813,557)
5,824	-	5,824
(274,395)	-	(274,395)
(12,281)	-	(12,281)
(31,763)	-	(31,763)
<u>(4,812,710)</u>	<u>-</u>	<u>(4,812,710)</u>
-	1,192	1,192
-	199,987	199,987
-	(83,945)	(83,945)
-	(162,607)	(162,607)
<u>-</u>	<u>(45,373)</u>	<u>(45,373)</u>
<u>(4,812,710)</u>	<u>(45,373)</u>	<u>(4,858,083)</u>
1,194,207	-	1,194,207
87,030	-	87,030
2,763,846	-	2,763,846
1,665,338	-	1,665,338
844,211	481,100	1,325,311
656,848	338,835	995,683
92,860	11,353	104,213
<u>7,304,340</u>	<u>831,288</u>	<u>8,135,628</u>
(856,208)	856,208	-
<u>-</u>	<u>2,046,114</u>	<u>2,046,114</u>
1,635,422	3,688,237	5,323,659
<u>30,905,720</u>	<u>22,340,816</u>	<u>53,246,536</u>
<u>\$ 32,541,142</u>	<u>\$ 26,029,053</u>	<u>\$ 58,570,195</u>

CITY OF ST. MARYS, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Special Assessment Bond Retirement	Voted Income Tax	Capital Improvements
Assets:				
Equity in pooled cash and cash equivalents	\$ 4,666,845	\$ 21,729	\$ 2,490,865	\$ 2,738,077
Receivables (net of allowance for uncollectibles):				
Income taxes.	653,826	-	322,033	-
Real and other taxes.	473,472	-	-	-
Accounts.	41,113	-	-	-
Special assessments	-	469,870	-	-
Loans	-	-	-	-
Accrued interest	5,606	-	973	-
Due from other funds.	60,462	-	-	-
Due from other governments	245,765	-	-	-
Prepayments	59,597	-	-	-
Materials and supplies inventory	36,043	-	-	-
Restricted assets:				
Cash with fiscal agent.	-	-	-	-
Total assets	\$ 6,242,729	\$ 491,599	\$ 2,813,871	\$ 2,738,077
Liabilities:				
Accounts payable.	\$ 19,868	\$ -	\$ 9,435	\$ -
Contracts payable	35,351	-	21,733	-
Retainage payable.	-	-	20,316	-
Accrued wages and benefits	55,634	-	1,525	-
Interfund loans payable	-	376,850	-	-
Due to other governments	55,065	-	1,826	99
Judgements payable	6,000	-	-	-
Unearned revenue.	463,280	-	-	-
Deferred revenue.	533,347	469,870	143,284	-
Notes payable	-	-	-	-
Total liabilities	1,168,545	846,720	198,119	99
Fund balances:				
Reserved for encumbrances	179,048	-	135,474	4,747
Reserved for materials and supplies inventory.	36,043	-	-	-
Reserved for prepayments	59,597	-	-	-
Reserved for loans	-	-	-	-
Reserved for debt service	-	21,729	-	-
Reserved for restricted assets.	-	-	-	-
Unreserved, undesignated (deficit), reported in:				
General fund	4,799,496	-	-	-
Special revenue funds.	-	-	-	-
Debt service fund	-	(376,850)	-	-
Capital projects funds.	-	-	2,480,278	2,733,231
Total fund balances (deficit).	5,074,184	(355,121)	2,615,752	2,737,978
Total liabilities and fund balances	\$ 6,242,729	\$ 491,599	\$ 2,813,871	\$ 2,738,077

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ 2,612,222	\$ 12,529,738
-	975,859
94,922	568,394
22	41,135
26,958	496,828
1,140,308	1,140,308
-	6,579
-	60,462
198,453	444,218
10,560	70,157
15,397	51,440
16,685	16,685
<u>\$ 4,115,527</u>	<u>\$ 16,401,803</u>
\$ 728	\$ 30,031
-	57,084
-	20,316
9,655	66,814
-	376,850
92,236	149,226
-	6,000
92,956	556,236
218,155	1,364,656
117,000	117,000
<u>530,730</u>	<u>2,744,213</u>
36,254	355,523
15,397	51,440
10,560	70,157
1,140,308	1,140,308
-	21,729
16,685	16,685
-	4,799,496
2,181,127	2,181,127
-	(376,850)
184,466	5,397,975
<u>3,584,797</u>	<u>13,657,590</u>
<u>\$ 4,115,527</u>	<u>\$ 16,401,803</u>

CITY OF ST. MARYS, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007

Total governmental fund balances		\$	13,657,590
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities (excluding internal service fund capital assets) are not financial resources and therefore are not reported in the funds.			17,731,825
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Income tax revenue	\$	431,246	
Property tax revenue		11,771	
Special assessment revenue		496,828	
Intergovernmental revenue		399,110	
Interest revenue		6,579	
Other revenues		19,122	
Total			1,364,656
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 \$15,610, are:			134,314
Long-term liabilities 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:			
Compensated absences		346,360	
Accrued interest		883	
Total			(347,243)
Net assets of governmental activities		\$	32,541,142

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF ST. MARYS, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>General</u>	<u>Special Assessment Bond Retirement</u>	<u>Voted Income Tax</u>	<u>Capital Improvements</u>
Revenues:				
Income taxes	\$ 2,305,465	\$ -	\$ 1,408,670	\$ 272,394
Real and other taxes	1,196,659	-	-	-
Charges for services	383,320	-	-	-
Licenses, permits and fees	66,480	-	-	-
Fines and forfeitures	20,496	-	-	-
Special assessments	-	150,423	-	-
Intergovernmental	822,800	-	-	-
Investment income	650,693	-	125,771	-
Rental income	18,225	-	-	-
Other	38,880	-	36,650	-
Total revenues	<u>5,503,018</u>	<u>150,423</u>	<u>1,571,091</u>	<u>272,394</u>
Expenditures:				
Current:				
General government	1,120,922	-	-	-
Security of persons and property.	2,334,548	-	-	-
Public health and welfare	2,206	-	-	-
Transportation	-	-	-	-
Community environment.	27,556	-	-	-
Leisure time activity	203,021	-	-	-
Capital outlay.	-	-	2,454,007	83,762
Debt service:				
Interest and fiscal charges	-	16,056	-	-
Total expenditures	<u>3,688,253</u>	<u>16,056</u>	<u>2,454,007</u>	<u>83,762</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>1,814,765</u>	<u>134,367</u>	<u>(882,916)</u>	<u>188,632</u>
Other financing sources (uses):				
Transfers in	-	10,448	-	-
Transfers out	<u>(1,361,188)</u>	<u>(195,448)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,361,188)</u>	<u>(185,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	453,577	(50,633)	(882,916)	188,632
Fund balances (deficit) at beginning of year. .	4,607,859	(304,488)	3,498,668	2,549,346
Increase in reserve for inventory.	12,748	-	-	-
Fund balances (deficit) at end of year	<u>\$ 5,074,184</u>	<u>\$ (355,121)</u>	<u>\$ 2,615,752</u>	<u>\$ 2,737,978</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ 490,309	\$ 4,476,838
88,238	1,284,897
108,008	491,328
-	66,480
2,038	22,534
1,953	152,376
458,495	1,281,295
77,073	853,537
-	18,225
3,244	78,774
<u>1,229,358</u>	<u>8,726,284</u>
-	1,120,922
404,853	2,739,401
-	2,206
830,869	830,869
30,289	57,845
104,301	307,322
276,271	2,814,040
<u>20,670</u>	<u>36,726</u>
<u>1,667,253</u>	<u>7,909,331</u>
<u>(437,895)</u>	<u>816,953</u>
700,428	710,876
<u>(10,448)</u>	<u>(1,567,084)</u>
<u>689,980</u>	<u>(856,208)</u>
252,085	(39,255)
3,329,832	13,681,217
2,880	15,628
<u>\$ 3,584,797</u>	<u>\$ 13,657,590</u>

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, 2007

Net change in fund balances - total governmental funds	\$	(39,255)
<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 (\$2,598,191) exceeded depreciation expense (\$1,047,050) in the current period. Both amounts are exclusive of internal service funds activity.		1,551,141
Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed.		15,628
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		143,886
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.		4,963
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.		(28,093)
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 internal balance activity of \$45,308, is allocated among the governmental activities.		(12,848)
Change in net assets of governmental activities.	\$	<u>1,635,422</u>

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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 2,393,169	\$ 2,393,169	\$ 2,158,417	\$ (234,752)
Real and other taxes	1,326,306	1,326,306	1,196,205	(130,101)
Charges for services	406,283	406,283	366,430	(39,853)
Licenses, permits and fees	88,009	88,009	79,376	(8,633)
Fines and forfeitures	22,995	22,995	20,739	(2,256)
Intergovernmental	969,447	969,447	874,351	(95,096)
Investment income	697,027	697,027	628,654	(68,373)
Rental income	20,207	20,207	18,225	(1,982)
Other	39,767	39,767	35,866	(3,901)
Total revenues	5,963,210	5,963,210	5,378,263	(584,947)
Expenditures:				
Current:				
General government	1,782,620	1,283,402	1,212,574	70,828
Security of persons and property.	3,480,663	2,505,912	2,367,616	138,296
Public health and welfare	8,967	6,456	6,100	356
Community environment	40,511	29,166	27,556	1,610
Leisure time activities	341,511	245,872	232,303	13,569
Debt service:				
Principal retirement	367,528	264,603	250,000	14,603
Interest and fiscal charges	15,027	10,819	10,222	597
Total expenditures	6,036,827	4,346,230	4,106,371	239,859
Excess of revenues over expenditures	(73,617)	1,616,980	1,271,892	(345,088)
Other financing sources (uses):				
Transfers out	(1,618,544)	(1,165,275)	(1,100,966)	64,309
Advances in	72,069	72,069	65,000	(7,069)
Sale of capital assets.	3,789	3,789	3,417	(372)
Total other financing sources (uses)	(1,542,686)	(1,089,417)	(1,032,549)	56,868
Net change in fund balance.	(1,616,303)	527,563	239,343	(288,220)
Fund balance at beginning of year	4,076,488	4,076,488	4,076,488	-
Prior year encumbrances appropriated	116,747	116,747	116,747	-
Fund balance at end of year	\$ 2,576,932	\$ 4,720,798	\$ 4,432,578	\$ (288,220)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007

Business-type Activities -

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 1,353,832	\$ 1,916,883	\$ 6,973,522
Cash in segregated accounts.	-	-	-
Receivables (net of allowance for uncollectibles)			
Real and other taxes.	-	-	62,895
Accounts	108,203	171,039	1,137,572
Special assessments.	-	905	-
Accrued interest.	575	504	1,571
Judgements	-	-	-
Interfund loans	-	-	376,850
Due from other governments	-	-	-
Prepayments.	18,458	18,642	116,695
Materials and supplies inventory	187,236	26,220	371,382
Unamortized bond issuance costs	-	17,590	-
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents.	-	389,008	-
Deposits in segregated accounts.	-	324,382	-
Refundable deposits.	-	-	231,768
Investment in joint venture	-	-	1,173,925
Capital assets:			
Land	232,462	144,500	513,813
Depreciable capital assets, net	4,480,888	4,252,137	6,638,046
Total capital assets	<u>4,713,350</u>	<u>4,396,637</u>	<u>7,151,859</u>
Total assets.	<u>6,381,654</u>	<u>7,261,810</u>	<u>17,598,039</u>
Liabilities:			
Current liabilities:			
Accounts payable	9,558	73,286	750,792
Contracts payable	11,009	11,008	11,008
Accrued wages and benefits.	10,944	12,393	30,108
Compensated absences payable.	16,816	13,623	47,063
Due to other funds	-	-	60,462
Due to other governments	12,138	12,043	35,671
Accrued interest payable	-	-	-
Payable from restricted assets:			
Current portion of revenue bonds	-	270,000	-
Current portion of general obligation bonds	-	-	80,696
Accrued interest payable.	-	2,174	23,271
Refundable deposits	-	-	231,768
Notes payable.	-	-	1,600,000
Claims payable	-	-	-
Long-term liabilities:			
Compensated absences	84,501	55,951	197,357
Revenue bonds payable.	-	191,973	-
General obligation bonds payable	-	-	1,357,745
Landfill closure/post closure liability.	-	-	-
Total liabilities	<u>144,966</u>	<u>642,451</u>	<u>4,425,941</u>
Net assets:			
Invested in capital assets, net of related debt.	4,713,350	3,952,254	4,113,418
Restricted for operations	-	467,721	-
Restricted for improvements and replacements.	-	598,545	-
Unrestricted (deficit)	1,523,338	1,600,839	9,058,680
Total net assets (deficit)	<u>\$ 6,236,688</u>	<u>\$ 6,619,359</u>	<u>\$ 13,172,098</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

Enterprise Funds		Governmental Activities - Internal Service Funds	
Refuse	Total		
\$ 403,802	\$ 10,648,039	\$ 131,948	
-	-	135,788	
-	62,895	-	
70,688	1,487,502	57,309	
-	905	-	
-	2,650	95	
2,046,114	2,046,114	-	
-	376,850	-	
3,170	3,170	-	
6,725	160,520	-	
4,273	589,111	22,468	
-	17,590	-	
-	389,008	-	
-	324,382	-	
-	231,768	-	
-	1,173,925	-	
303,695	1,194,470	-	
1,614,277	16,985,348	43,500	
1,917,972	18,179,818	43,500	
4,452,744	35,694,247	391,108	
53,239	886,875	2,270	
2,654	35,679	-	
6,390	59,835	1,159	
6,587	84,089	1,745	
-	60,462	-	
5,721	65,573	1,301	
20,050	20,050	-	
-	270,000	-	
-	80,696	-	
-	25,445	-	
-	231,768	-	
779,000	2,379,000	-	
-	-	227,038	
23,055	360,864	7,671	
-	191,973	-	
-	1,357,745	-	
3,570,750	3,570,750	-	
4,467,446	9,680,804	241,184	
1,138,972	13,917,994	43,500	
-	467,721	-	
-	598,545	-	
(1,153,674)	11,029,183	106,424	
\$ (14,702)	26,013,443	\$ 149,924	
	15,610		
	\$ 26,029,053		

CITY OF ST. MARYS, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities -		
	Water	Sewer	Electric
Operating revenues:			
Charges for services	\$ 1,166,533	\$ 1,766,435	\$ 12,591,844
Tap-in fees.	13,231	1,822	-
Rental income	1,224	2,017	22,288
Other.	46,966	16,002	280,220
Total operating revenues	1,227,954	1,786,276	12,894,352
Operating expenses:			
Personal services	676,123	627,247	1,850,883
Contractual services.	171,928	705,663	751,162
Materials and supplies	199,498	61,926	9,608,059
Claims	-	-	-
Depreciation	222,857	214,816	565,584
Other	83	123	821
Total operating expenses.	1,270,489	1,609,775	12,776,509
Operating income (loss)	(42,535)	176,501	117,843
Nonoperating revenues (expenses):			
Interest and fiscal charges	-	(38,368)	(135,928)
Interest revenue.	23,280	51,594	235,459
Decrease in investment in joint venture	-	-	(75,940)
Other local tax revenue.	-	-	11,353
Intergovernmental	-	481,100	-
Excise tax expense	-	-	(11,353)
Total nonoperating revenues (expenses)	23,280	494,326	23,591
Net income (loss) before transfers and capital contributions.	(19,255)	670,827	141,434
Capital contributions	36,984	54,579	-
Transfers in	-	-	816,208
Net income before special item	17,729	725,406	957,642
Special item:			
Landfill judgment	-	-	-
Changes in net assets	17,729	725,406	957,642
Net assets (deficit) at beginning of year	6,218,959	5,893,953	12,214,456
Net assets (deficit) at end of year	\$ 6,236,688	\$ 6,619,359	\$ 13,172,098

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

Changes in net assets of business-type

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>	
\$ 837,768	\$ 16,362,580	\$ 1,840,748
-	15,053	-
8,315	33,844	-
20,203	363,391	57,350
<hr/>	<hr/>	<hr/>
866,286	16,774,868	1,898,098
<hr/>	<hr/>	<hr/>
292,955	3,447,208	73,449
590,482	2,219,235	1,003
16,775	9,886,258	396,794
-	-	1,397,511
103,367	1,106,624	3,000
18	1,045	-
<hr/>	<hr/>	<hr/>
1,003,597	16,660,370	1,871,757
<hr/>	<hr/>	<hr/>
(137,311)	114,498	26,341
<hr/>	<hr/>	<hr/>
(35,153)	(209,449)	-
28,502	338,835	6,119
-	(75,940)	-
-	11,353	-
-	481,100	-
-	(11,353)	-
<hr/>	<hr/>	<hr/>
(6,651)	534,546	6,119
<hr/>	<hr/>	<hr/>
(143,962)	649,044	32,460
-	91,563	-
40,000	856,208	-
<hr/>	<hr/>	<hr/>
(103,962)	1,596,815	32,460
<hr/>	<hr/>	<hr/>
2,046,114	2,046,114	-
<hr/>	<hr/>	<hr/>
1,942,152	3,642,929	32,460
<hr/>	<hr/>	<hr/>
(1,956,854)		117,464
<hr/>	<hr/>	<hr/>
\$ (14,702)		\$ 149,924
<hr/>	<hr/>	<hr/>
	45,308	
	<hr/>	
	\$ 3,688,237	
	<hr/>	

CITY OF ST. MARYS, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities -		
	Water	Sewer	Electric
Cash flows from operating activities:			
Cash received from charges for services	\$ 1,161,910	\$ 1,736,775	\$ 12,560,371
Cash received from tap-in fees.	13,231	1,822	-
Cash received from rental charges	1,224	4,033	15,428
Cash received from other operations.	46,966	58,168	384,700
Cash payments for personal services	(657,358)	(612,750)	(1,820,486)
Cash payments for contract services.	(175,060)	(659,259)	(735,980)
Cash payments for materials and supplies	(197,659)	(58,979)	(9,738,764)
Cash payments for claims	-	-	-
Cash payments for other operations	(83)	(123)	(190,498)
Net cash provided by (used in) operating activities.	<u>193,171</u>	<u>469,687</u>	<u>474,771</u>
Cash flows from noncapital financing activities:			
Cash received from transfers in.	-	-	816,208
Cash received from other governments.	-	481,100	-
Cash payments for advances out	-	-	-
Cash received from other local taxes.	-	-	11,353
Cash payments for excise tax expense	-	-	(11,353)
Net cash provided by (used in) noncapital financing activities.	<u>-</u>	<u>481,100</u>	<u>816,208</u>
Cash flows from capital and related financing activities:			
Cash payments for the acquisition of capital assets	(237,050)	(378,700)	(12,865)
Cash received from notes issued.	-	-	1,600,000
Cash payments for principal retirement	-	(260,000)	(1,976,889)
Cash payments for interest and fiscal charges.	-	(3,917)	(135,971)
Net cash used in capital and related financing activities	<u>(237,050)</u>	<u>(642,617)</u>	<u>(525,725)</u>
Cash flows from investing activities:			
Cash received from interest earned	23,439	51,733	235,894
Net cash provided by investing activities.	<u>23,439</u>	<u>51,733</u>	<u>235,894</u>
Net increase (decrease) in cash and cash equivalents	(20,440)	359,903	1,001,148
Cash and cash equivalents at beginning of year	<u>1,374,272</u>	<u>2,270,370</u>	<u>6,204,142</u>
Cash and cash equivalents at end of year.	<u>\$ 1,353,832</u>	<u>\$ 2,630,273</u>	<u>\$ 7,205,290</u>

<u>Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>	
<u>Refuse</u>	<u>Total</u>		
\$ 835,201	\$ 16,294,257	\$ 2,050,541	
-	15,053	-	
11,180	31,865	-	
21,045	510,879	41	
(281,932)	(3,372,526)	(72,049)	
(534,192)	(2,104,491)	(1,003)	
(15,284)	(10,010,686)	(396,342)	
-	-	(1,299,702)	
(18)	(190,722)	(211)	
<u>36,000</u>	<u>1,173,629</u>	<u>281,275</u>	
40,000	856,208	-	
-	481,100	-	
-	-	(65,000)	
-	11,353	-	
-	(11,353)	-	
<u>40,000</u>	<u>1,337,308</u>	<u>(65,000)</u>	
-	(628,615)	-	
779,000	2,379,000	-	
(867,000)	(3,103,889)	-	
(35,016)	(174,904)	-	
<u>(123,016)</u>	<u>(1,528,408)</u>	<u>-</u>	
<u>28,502</u>	<u>339,568</u>	<u>6,146</u>	
<u>28,502</u>	<u>339,568</u>	<u>6,146</u>	
(18,514)	1,322,097	222,421	
422,316	10,271,100	45,315	
<u>\$ 403,802</u>	<u>\$ 11,593,197</u>	<u>\$ 267,736</u>	

(continued)

CITY OF ST. MARYS, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Business-type Activities -</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (42,535)	\$ 176,501	\$ 117,843
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	222,857	214,816	565,584
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable.	(4,898)	14,338	(78,154)
Decrease in special assessments receivable.	275	184	-
Decrease in due from other governments	-	-	-
Increase in interfund loans receivable.	-	-	(45,680)
(Increase) decrease in materials and supplies inventory.	(13,785)	2,947	(106,268)
(Increase) decrease in prepayments.	1,294	758	25,701
Increase (decrease) in accounts payable	189	34,638	(45,964)
Increase in contracts payable	11,009	11,008	11,008
Increase (decrease) in accrued wages and benefits	2,130	3,401	4,631
Increase (decrease) in compensated absences payable	10,612	4,721	9,266
Increase in due to other governments	6,023	6,375	16,500
Increase in refundable deposits liability.	-	-	304
Increase in landfill closure/post closure liability	-	-	-
Increase in claims payable.	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 193,171</u>	<u>\$ 469,687</u>	<u>\$ 474,771</u>
Non-Cash Transactions:			
Capital contributions received from developers	\$ 36,984	\$ 54,579	\$ -

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>	
\$ (137,311)	\$ 114,498	\$ 26,341
103,367	1,106,624	3,000
298	(68,416)	152,484
-	459	-
842	842	-
-	(45,680)	-
(1,163)	(118,269)	4,344
(255)	27,498	-
45,175	34,038	(4,103)
2,654	35,679	-
1,467	11,629	318
6,970	31,569	371
2,586	31,484	711
-	304	-
11,370	11,370	-
-	-	97,809
<u>\$ 36,000</u>	<u>\$ 1,173,629</u>	<u>\$ 281,275</u>

\$ -	\$ 91,563	\$ -
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CITY OF ST. MARYS, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2007**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 111,088
Receivables:	
Income taxes	<u>711,797</u>
Total assets	<u>\$ 822,885</u>
Liabilities:	
Accounts payable	\$ 1,000
Due to other governments.	724,606
Payroll withholdings	41,446
Undistributed assets.	<u>55,833</u>
Total liabilities	<u>\$ 822,885</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, 2007

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 also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB procurements. The City does not apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds. 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 2007.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

The following organizations are described due to their relationship to the City:

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 (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 Agreement.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) 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 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, 2007 the City of St. Mary's 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 138.65 MW of distributed generation of which 134.081MW is the participant's 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, 2007 was \$1,196,027 (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 \$1,173,925 at December 31, 2007. 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.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2007 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 is disclosed below:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2008	\$ 80,696	\$ 71,722	\$ 152,418
2009	84,693	67,687	152,380
2010	88,880	63,453	152,333
2011	93,638	58,787	152,425
2012	98,586	53,871	152,457
2013 - 2017	574,957	186,786	761,743
2018 - 2021	416,991	40,220	457,211
Total Gross Liability	1,438,441	\$ 542,526	\$ 1,980,967
Less: Amounts Held in Reserve	(242,414)		
Net Obligation	<u>1,196,027</u>		

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. 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, tap-in fees and rental income for the water, sewer, electric and refuse enterprise funds and insurance premiums collected for the self-insurance internal service fund. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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.

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.

Special Assessment Bond Retirement - This debt service fund accounts for the accumulation of resources from special assessments, and the payment of special assessment liabilities.

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.

Capital Improvements Fund - This capital projects fund accounts for capital outlay expenditures for capital improvements, including the acquisition, construction and improvement of facilities and other capital assets.

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 operations of water treatment and distribution to residential and commercial users located within the City.

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

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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.

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 which are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds have been established to account for outside sewer district deposits, trust deposits, and employee savings bond deposits.

D. Measurement Focus

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.

Agency funds do not report a measurement focus as they do not report operations.

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.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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.

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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2007, but which were levied to finance year 2008 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2007, are recorded as deferred revenue.

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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.

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. The Auglaize County auditor waived this requirement for 2007.

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 2007.

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 may not legally exceed appropriations at the level of appropriation adopted by the City Council. For all funds, City Council appropriations are made to personal services, capital outlay, debt retirement, transfer accounts and other expenditure accounts for each department within each fund. The appropriations set by the City Council at the legal level of control 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 legal level of control appropriated amount.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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.

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 financial statements as "Cash with Fiscal Agent" 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 financial statements as "Cash In Segregated Accounts".

Investments are reported at fair value, except for 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 shares price, which is the price the investment could be sold for on December 31, 2007.

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 2007 was \$650,693, which includes \$424,876 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. See Note 8 for further information on the City's loans receivable.

I. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2007, 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.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

J. 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.

K. 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.

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

L. Compensated Absences

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

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

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.

M. 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 and compensated absences 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.

N. Interfund Balances

On fund financial statements, amounts due to/from other funds resulting from time lag between payment dates are classified as "due to/from other funds". Interfund balances resulting from loan transactions between funds are reported as "interfund loans receivable/payable".

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.

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

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 net assets are restricted for resources necessary to comply with bond financing agreements.

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

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 financial statements 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 monies 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. Unamortized bond issuance costs are reported separately on the statement of net assets.

S. Unamortized Deferred Charges 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. These deferred charges are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a reduction to the reported 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. Capital Contributions

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.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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. Net assets restricted for other purposes primarily consist of monies held for swimming pool operations and for the security of persons and property.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

W. 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. During 2007, the City has reported a special item for a judgment receivable and the corresponding revenue reported in the Refuse enterprise fund. See Note 21.C and Note 22 for detailed information regarding this judgment receivable.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For 2007, the City has implemented GASB Statement No. 48 "*Sales and Pledges of Receivables and Intra-Entity Transfers of Assets and Future Revenues*". GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the City; however, additional disclosure related to revenues pledged for the repayment of revenue bonds has been provided in Note 12.

B. Deficit Fund Balances/Net Assets

Major Governmental Fund

Special Assessment Bond Retirement	\$ 355,121
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Nonmajor Governmental Funds

Police Pension	33,310
Fire Pension	39,547
Special Assessment Improvement	95,745

Major Enterprise Fund

Refuse	14,702
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CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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 and provides transfers when cash is required, not when accruals occur. The deficit fund balance in the special assessment bond retirement fund resulted from the reporting of an interfund loan as a fund liability rather than an other financing source since the interfund loan is subject to repayment. The deficit net asset balance in the refuse enterprise fund is due to the reporting of a fund liability for estimated closure and post-closure care costs related to the City's landfill. The deficit fund balances in the nonmajor governmental funds resulted from adjustments for accrued liabilities. These deficit balances will be eliminated as resources become available to liquidate them.

NOTE 4 - DEPOSITS AND INVESTMENTS

State Statutes classify monies held by the City into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the City has identified as not required for use within the current five 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.

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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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;

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above 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 Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;
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 Ohio, as to which there is no default of principal, interest or coupons; and
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 monies deposited with the institution.

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.

Cash in Segregated Accounts: At year-end, the City had \$135,788 deposited with a financial institution for monies related to the Self-Insurance internal service fund. This amount is included in the "Deposits with Financial Institutions" below.

Restricted Cash with Fiscal Agent: At year-end, the City had \$16,685 on deposit with a financial institution for permissive tax monies held by Auglaize County. The data regarding insurance and collateralization can be obtained from the Auglaize County financial report for the year ended December 31, 2007. This amount is not included in "Deposits with Financial Institutions" below.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Restricted Assets: At year-end, the City had various deposits which were restricted (see Note 18). These amounts are included in “Deposits with Financial Institutions” below.

A. Deposits with Financial Institutions

At December 31, 2007, the carrying amount of all City deposits was \$14,636,052. As of December 31, 2007, \$600,000 of the City’s bank balance of \$15,012,929 was covered by the Federal Deposit Insurance Corporation, and \$14,412,929 was exposed to custodial risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. As permitted by Ohio Revised Code, the City’s deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

B. Investments

As of December 31, 2007, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>Greater than 24 months</u>
FHLB	\$ 1,004,060	\$ -	\$ 1,004,060
FHLMC	2,010,860	-	2,010,860
U.S. Treasury money market mutual funds	827,731	827,731	-
STAR Ohio	<u>6,023,056</u>	<u>6,023,056</u>	<u>-</u>
	<u>\$ 9,865,707</u>	<u>\$ 6,850,787</u>	<u>\$ 3,014,920</u>

The weighted average maturity of investments is 1.24 years.

Interest Rate Risk: The Ohio Revised Code general limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City’s investment policy addresses interest rate risk by requiring the consideration of market conditions and cash flow requirements in determining the term of an investment.

Credit Risk: STAR Ohio and the U.S. Treasury money market mutual funds carry a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The City’s investments in federal agency securities were rated AAA and Aaa by Standard & Poor’s and Moody’s Investor Services, Inc.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 1,004,060	10.18
FHLMC	2,010,860	20.38
U.S. Treasury money market mutual funds	827,731	8.39
STAR Ohio	<u>6,023,056</u>	<u>61.05</u>
Total	<u>\$ 9,865,707</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of December 31, 2007:

Cash and Investments per Note Disclosure

Carrying amount of deposits	\$ 14,636,052
Investments	9,865,707
Cash with fiscal agent	<u>16,685</u>
Total	<u>\$ 24,518,444</u>

Cash and Investments per Statement of Net Assets

Governmental activities	\$ 12,814,159
Business type activities	11,593,197
Agency funds	<u>111,088</u>
Total	<u>\$ 24,518,444</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Transfers in and out consisted of the following, as reported in the fund financial statements for the fiscal year ended December 31, 2007:

Transfers out of General fund and into:

Nonmajor Governmental funds	\$ 504,980
Electric fund	816,208
Refuse fund	40,000

Transfers out of Special Assessment Bond Retirement fund and into:

Nonmajor Governmental funds	195,448
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Transfers out of Nonmajor Governmental funds and into:

Special Assessment Bond Retirement fund	<u>10,448</u>
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Total	<u>\$ 1,567,084</u>
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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 an \$816,208 transfer from the general fund to the electric fund. This transfer was related to the kilowatt hour tax that is collected in the general fund and pertains to electric operations. The transfer from the special assessment bond retirement fund to the nonmajor governmental funds was required to move debt service principal and interest on notes payable to the fund reporting the liability. Transfers between governmental funds are eliminated for reporting on the statement of activities.

- B.** Interfund loans receivable and payable consisted of the following, as reported in the fund financial statements for the fiscal year ended December 31, 2007:

Interfund loans receivable in the Electric fund from:

Special Assessment Bond Retirement fund	<u>\$ 376,850</u>
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Total	<u>\$ 376,850</u>
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Interfund loans between governmental funds are eliminated for reporting the statement of net assets. Interfund loans between governmental and business-type activities are reported as a component of “internal balance” on the statement of net assets.

- C.** Due from and to other funds consisted of the following, as reported in the fund financial statements for the fiscal year ended December 31, 2007:

Due to General fund from:

Electric fund	<u>\$ 60,462</u>
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Total	<u>\$ 60,462</u>
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These balances resulted from the time lag between the dates in which payments between the funds are made. Amounts due to/from other funds between governmental and business-type activities are reported as a component of “internal balance” on the statement of net assets.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 2005. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2007 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 12.5% for 2007. This percentage will be reduced to 6.25% for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2007-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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. The full tax rate for all City operations for the year ended December 31, 2007 was \$5.32 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2007 property tax receipts were based are as follows:

<u>Assessed Values</u>	<u>Amount</u>
Real Property:	
Agricultural/Residential	\$ 80,289,630
Commercial/Industrial	22,058,110
Public Utility Property:	
Real property	6,530
Personal property	1,083,510
Tangible Personal Property:	<u>13,211,433</u>
Total Assessed Value	<u><u>\$ 116,649,213</u></u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

"Real and other taxes" receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007 and for which there is an enforceable legal claim. In the governmental funds, the current portion of the receivable has been offset by "unearned revenue" since the current taxes were not levied to finance 2007 operations and the delinquent portion of the receivable has been offset by "deferred revenue" since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The eventual collection of significantly all real and public utility property taxes (both current and delinquent) is reasonably assured due to the County's ability to force foreclosure of the properties on which the taxes are levied.

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 1 percent of the income tax revenues to the general fund (0.72%), the street construction and maintenance fund (a nonmajor governmental fund) (0.18%), and the capital improvements fund (0.10%). The other 0.5 percent is allocated to the voted income tax fund. For fiscal year 2007, in the fund financial statements, income tax revenue credited to the general fund, voted income tax fund, capital improvements fund and the nonmajor governmental funds totaled \$2,305,465, \$1,408,670, \$272,394 and \$490,309, respectively.

NOTE 8 - LOANS RECEIVABLE

Loans receivable represent low interest loans for development projects and home improvements granted to eligible City businesses and residents under the Community Development Block Grant (CDBG) program, a federal grant program which is accounted for in the CDBG fund (a nonmajor governmental fund). The loans have an annual interest rate of 3.00% - 7.00% and are repaid over periods ranging from five to thirty years.

A summary of loans receivable activity during 2007 follows:

	<u>Balance</u>			<u>Balance</u>
<u>Loans receivable:</u>	<u>12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/07</u>
Business loans	\$ 1,044,730	\$ 220,000	\$ (124,422)	\$ 1,140,308
Total	<u>\$ 1,044,730</u>	<u>\$ 220,000</u>	<u>\$ (124,422)</u>	<u>\$ 1,140,308</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 9 - RECEIVABLES

Receivables at December 31, 2007 consisted of taxes, accounts (billings for user charged services), special assessments, loans, judgments, accrued interest and intergovernmental receivables arising from grants, entitlements, and shared revenues. All intergovernmental receivables have been reported as "Due From Other Governments" on the basic financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2007.

A summary of the principal items of receivables reported on the statement of net assets follows:

<u>Receivables:</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Income taxes	\$ 975,859	\$ -
Real and other taxes	568,394	62,895
Accounts	98,444	1,487,502
Special assessments	496,828	905
Loans	1,140,308	-
Judgments	-	2,046,114
Accrued interest	6,674	2,650
Due from other governments	<u>444,218</u>	<u>3,170</u>
Total	<u>\$ 3,730,725</u>	<u>\$ 3,603,236</u>

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 special assessments, loans, and judgments. Special assessments will be collected over the life of the assessment. Loans will be collected over the term of the loan agreement (see Note 8). Judgments will be collected over a period of two years.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

<u>Governmental Activities</u>	Balance <u>12/31/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,881,561	\$ -	\$ -	\$ 1,881,561
<i>Total capital assets, not being depreciated</i>	<u>1,881,561</u>	<u>-</u>	<u>-</u>	<u>1,881,561</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,489,787	303,006	-	2,792,793
Buildings and improvements	1,336,729	6,060	-	1,342,789
Equipment and furniture	739,434	83,164	-	822,598
Vehicles	2,432,795	920,979	-	3,353,774
Infrastructure	17,218,385	1,284,982	-	18,503,367
<i>Total capital assets, being depreciated</i>	<u>24,217,130</u>	<u>2,598,191</u>	<u>-</u>	<u>26,815,321</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(664,622)	(95,418)	-	(760,040)
Buildings and improvements	(792,551)	(34,096)	-	(826,647)
Equipment and furniture	(446,212)	(39,070)	-	(485,282)
Vehicles	(1,762,609)	(133,877)	-	(1,896,486)
Infrastructure	(6,205,513)	(747,589)	-	(6,953,102)
<i>Total accumulated depreciation</i>	<u>(9,871,507)</u>	<u>(1,050,050)</u>	<u>-</u>	<u>(10,921,557)</u>
Total capital assets, net	<u>\$ 16,227,184</u>	<u>\$ 1,548,141</u>	<u>\$ -</u>	<u>\$ 17,775,325</u>

Depreciation expense was charged to the City's programs/functions as follows:

<u>Governmental Activities</u>	<u>Depreciation Expense</u>
General government	\$ 138,721
Security of persons and property	97,695
Public health and welfare	473
Transportation	709,058
Community environment	215
Leisure time activities	88,607
Other	12,281
Capital assets held by the internal service funds are charged to various functions based upon their usage of the capital assets	<u>3,000</u>
Total depreciation expense	<u>\$ 1,050,050</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Business-Type Activities</u>	Balance <u>12/31/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,194,470	\$ -	\$ -	\$ 1,194,470
<i>Total capital assets, not being depreciated</i>	<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	5,190,850	-	-	5,190,850
Equipment and furniture	10,382,794	230,531	-	10,613,325
Vehicles	2,344,404	-	(20,345)	2,324,059
Infrastructure	<u>16,934,255</u>	<u>489,647</u>	<u>-</u>	<u>17,423,902</u>
<i>Total capital assets, being depreciated</i>	<u>39,821,554</u>	<u>720,178</u>	<u>(20,345)</u>	<u>40,521,387</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(2,271,142)	(177,338)	-	(2,448,480)
Buildings and improvements	(3,616,029)	(130,397)	-	(3,746,426)
Equipment and furniture	(8,018,830)	(266,058)	-	(8,284,888)
Vehicles	(1,765,735)	(94,505)	20,345	(1,839,895)
Infrastructure	<u>(6,778,024)</u>	<u>(438,326)</u>	<u>-</u>	<u>(7,216,350)</u>
<i>Total accumulated depreciation</i>	<u>(22,449,760)</u>	<u>(1,106,624)</u>	<u>20,345</u>	<u>(23,536,039)</u>
Total capital assets, net	<u>\$ 18,566,264</u>	<u>\$ (386,446)</u>	<u>\$ -</u>	<u>\$ 18,179,818</u>

Depreciation expense was charged to the City's enterprise funds as follows:

<u>Business-Type Activities:</u>	<u>Depreciation Expense</u>
Water fund	\$ 222,857
Sewer fund	214,816
Electric fund	565,584
Refuse fund	<u>103,367</u>
Total depreciation expense	<u>\$ 1,106,624</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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.

NOTE 12 - LONG-TERM OBLIGATIONS

Governmental activities changes in long-term obligations for the year ended December 31, 2007 were as follows:

	Balance			Balance	Amount
	<u>12/31/2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2007</u>	<u>Due Within</u>
<u>Governmental Activities:</u>					<u>One Year</u>
<u>Other Long-Term Obligations</u>					
Compensated absences payable	\$ 327,312	\$ 91,329	\$ (62,865)	\$ 355,776	\$ 73,272
Total Long-Term Obligations	<u>\$ 327,312</u>	<u>\$ 91,329</u>	<u>\$ (62,865)</u>	<u>\$ 355,776</u>	<u>\$ 73,272</u>

Compensated absences will be paid out of the fund from which the employee's salary is paid which, for the City, is primarily the general fund, the street construction and maintenance fund (a nonmajor governmental fund), and the City garage internal service fund.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Business-type activities changes in long-term obligations for the year ended December 31, 2007 follows:

	Interest	Balance			Balance	Amount
<u>Business-Type Activities:</u>	<u>Rate</u>	<u>12/31/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/07</u>	<u>Due Within</u>
						<u>One Year</u>
<u>Revenue Bonds</u>						
Sanitary Sewer System Refunding	4.75 - 5.15%	\$ 775,000	\$ -	\$ (260,000)	\$ 515,000	\$ 270,000
<u>General Obligation Bonds</u>						
OMEGA JV2 Electric Project	3.81%	1,515,330	-	(76,889)	1,438,441	80,696
<u>Other Long-Term Obligations</u>						
Compensated absences payable		413,384	106,706	(75,137)	444,953	84,089
Landfill closure/postclosure liability		3,559,380	11,370	-	3,570,750	-
Total Other Long-Term Obligations		3,972,764	118,076	(75,137)	4,015,703	84,089
Total Long-Term Obligations		<u>\$ 6,263,094</u>	<u>\$ 118,076</u>	<u>\$ (412,026)</u>	5,969,144	<u>\$ 434,785</u>
Less: Unamortized deferred charges on advance refunding					(53,027)	
Total Long-Term Obligations reported on Statement of Net Assets					<u>\$ 5,916,117</u>	

Compensated absences will be paid out of the fund from which the employee's salary is paid, which includes the water, sewer, electric, and refuse enterprise funds.

Revenue Bonds - The revenue bonds are a liability of the Sewer enterprise fund. The City has pledged future sewer customer revenues, net of specified operating expenses, to repay the Series 1996 sewer system refunding revenue bonds which were issued to refund previously issued bonds. The Series 1996 sewer system refunding revenue bonds are payable solely from sewer customer net revenues and are payable through 2009. Annual principal and interest payments on the bonds are expected to require approximately 76% percent of net revenues. The total principal and interest remaining to be paid on the Series 1996 sewer system refunding revenue bonds is \$554,140. Principal and interest paid for the current year and total customer net revenues were \$299,913 and \$391,317, respectively. The Series 1996 sanitary sewer system refunding revenue bonds are reported on the statement of net assets net of the amortized loss on advance refunding of \$53,027.

At December 31, 2007, the principal and interest requirements to retire the business-type activities long-term bonds are as follows:

<u>Year</u>	<u>Revenue Bonds</u>			<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 270,000	\$ 26,522	\$ 296,522	\$ 80,696	\$ 71,722	\$ 152,418
2009	245,000	12,618	257,618	84,693	67,687	152,380
2010	-	-	-	88,880	63,453	152,333
2011	-	-	-	93,638	58,787	152,425
2012	-	-	-	98,586	53,871	152,457
2013 - 2017	-	-	-	574,957	186,786	761,743
2018 - 2020	-	-	-	416,991	40,220	457,211
Total	<u>\$ 515,000</u>	<u>\$ 39,140</u>	<u>\$ 554,140</u>	<u>\$ 1,438,441</u>	<u>\$ 542,526</u>	<u>\$ 1,980,967</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Defeased Debt

In 1991, the City advance refunded revenue bonds and mortgage revenue bonds in the amounts of \$2,645,000 and \$3,540,000, respectively. The proceeds of these 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 in the basic financial statements. At December 31, 2007, revenue bonds and mortgage revenue bonds were outstanding in the amounts of \$225,000 and \$375,000, respectively.

In 2004, the City advance refunded mortgage revenue bonds in the amount of \$3,065,000. The proceeds of these 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 in the basic financial statements. At December 31, 2007, mortgage revenue bonds were outstanding in the amount of \$1,510,000.

In 2005, the City advance refunded revenue bonds in the amount of \$770,000. The proceeds of these 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 in the basic financial statements. At December 31, 2007, revenue bonds were outstanding in the amount of \$480,000.

Legal Debt Margins

At December 31, 2007, the City had a legal voted debt margin of \$11,893,046 and a legal unvoted debt margin of \$6,060,586.

NOTE 13 - SHORT-TERM OBLIGATIONS

Governmental activities changes in short-term obligations for the year ended December 31, 2007 were as follows:

<u>Governmental Activities:</u>	<u>Series</u>	<u>Interest Rate</u>	<u>Balance 12/31/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/07</u>	<u>Amount Due Within One Year</u>
<u>Bond Anticipation Notes</u>							
General Purpose	2006	4.10%	\$ 250,000	\$ -	\$ (250,000)	\$ -	\$ -
Street Program	2006	4.25%	185,000	-	(185,000)	-	-
Street Program	2007	4.38%	-	117,000	-	117,000	117,000
Total Short-Term Obligations			<u>\$ 435,000</u>	<u>\$ 117,000</u>	<u>\$ (435,000)</u>	<u>\$ 117,000</u>	<u>\$ 117,000</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 13 - SHORT-TERM OBLIGATIONS - (Continued)

Business-type activities changes in short-term obligations for the year ended December 31, 2007 were as follows:

<u>Business-Type Activities:</u>	<u>Series</u>	<u>Interest Rate</u>				<u>Balance 12/31/07</u>	<u>Amount Due Within One Year</u>
			<u>Balance 12/31/06</u>	<u>Increases</u>	<u>Decreases</u>		
<u>Bond Anticipation Notes</u>							
Electric Improvements	2006	3.75%	\$ 1,900,000	\$ -	\$ (1,900,000)	\$ -	\$ -
Electric Improvements	2007	3.70%	-	1,600,000	-	1,600,000	1,600,000
Landfill Improvements	2006	4.05%	867,000	-	(867,000)	-	-
Landfill Improvements	2007	4.00%	-	779,000	-	779,000	779,000
Total Short-Term Obligations			<u>\$ 2,767,000</u>	<u>\$ 2,379,000</u>	<u>\$ (2,767,000)</u>	<u>\$ 2,379,000</u>	<u>\$ 2,379,000</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 bond anticipation notes are supported by the full faith and credit of the City. The liability for the notes is presented in the fund which received the proceeds and has a maturity of one year.

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	\$ 0
Police Professional Liability	5,000,000	5,000
Public Official Liability	5,000,000	5,000
Automobile Fleet Liability	5,000,000	1,000
Buildings and Contents	83,493,398	1,000
Boiler and Machinery	60,000,000	various
Inland Marine (EDP Floater)	172,275	100
Equipment	1,058,402	250

There have been no significant reductions in insurance coverage from 2006, 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.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 14 - RISK MANAGEMENT - (Continued)

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. Certain 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-year and current-year claims. For 2007, the City utilized a third party administrator, MedBen, Inc., to process all claims. The monthly premiums are \$630.46 for single coverage and \$1,183.26 for family coverage; the employee's share is \$193.09 and \$362.48, respectively. All premiums are paid into the Self-Insurance internal service fund. The cost to the City for the third party administrator is \$26.00 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 \$5,000,000 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 GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", 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, 2007, is estimated by the third party administrator at \$227,038. The changes in the claims liability for 2007 and 2006 are as follows:

<u>Year</u>	<u>Beginning Balance</u>	<u>Changes in Claims Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2007	\$ 129,229	\$ 1,397,511	\$(1,299,702)	\$ 227,038
2006	77,338	1,134,572	(1,082,681)	129,229

C. Workers' Compensation

For 2007, 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.

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 15 - PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement under the Traditional Pension Plan, were required to contribute 9.5% of their annual covered salaries. Members participating in the Traditional Pension Plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2007 was 8.85% for the period January 1, 2007 through June 30, 2007 and 7.85% for the period July 1, 2007 through December 31, 2007, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.17% of covered payroll for the period January 1, 2007 through June 30, 2007 and 11.17% of covered payroll for the period July 1, 2007 through December 31, 2007. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions to the Traditional Pension and Combined Plans for the years ended December 31, 2007, 2006, and 2005 were \$544,576, \$513,491, and \$519,431, respectively; 98.23% has been contributed for 2007 and 100% has been contributed for 2006 and 2005. \$9,621, representing the unpaid pension contribution for 2007, is recorded as a liability within the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2007.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 15 - PENSION PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the 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 19.5% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$152,926 and \$162,721, respectively, for the year ended December 31, 2007, \$152,336 and \$158,418, respectively, for the year ended December 31, 2006, and \$137,065 and \$150,035, respectively, for the year ended December 31, 2005. The full amount has been contributed for 2006 and 2005. 74.29% for police officers and 74.26% for firefighters has been contributed for 2007 with the remainder being reported as a liability in the respective funds.

NOTE 16 - POST-EMPLOYMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-employment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional Pension 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 post-employment health care coverage. The health care coverage provided by OPERS is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the Traditional Pension or Combined Plans is set aside for the funding of post-employment health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85% of covered payroll (17.17% for public safety and law enforcement); 5.00% of covered payroll was the portion that was used to fund health care for the period January 1, 2007 through June 30, 2007 and 6.00% of covered payroll was the portion that was used to fund health care for the period July 1, 2007 through December 31, 2007.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50%, 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 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 5.00% for the next eight years. In subsequent years, (nine and beyond) health care costs were assumed to increase at 4.00%.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 16 - POST-EMPLOYMENT BENEFIT PLANS - (Continued)

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the Traditional Pension and Combined Plans was 374,979 as of December 31, 2007. The City's actual employer contributions for 2007 which were used to fund post-employment benefits were \$216,258. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006 (the latest information available) were \$12.0 billion. At December 31, 2006 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides post-employment 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 OP&F is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the OP&F'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 6.75% of covered payroll was applied to the post-employment health care program during 2007. 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 2007 that were used to fund post-employment benefits were \$52,936 for police officers and \$45,765 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available) was \$120.374 million, which was net of member contributions of \$58.533 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006 (the latest information available), was 14,120 for police officers and 10,563 for firefighters.

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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).
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.

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ 239,343
Net adjustment for revenue accruals	124,755
Net adjustment for expenditure accruals	183,851
Net adjustment for other financing sources and uses	(328,639)
Adjustment for encumbrances	<u>234,267</u>
GAAP basis	<u><u>\$ 453,577</u></u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 18 - RESTRICTED ASSETS AND NET ASSETS

Fund assets, whose use is restricted under the bond indentures to current and future debt service requirements, refundable electric customer deposits, operations, and improvements and replacements are presented as restricted assets and restricted net assets on the proprietary fund statement of net assets. These assets are further segregated between those held by the City and those held by trustees. The City also has permissive tax monies on deposit with Auglaize County in the amount of \$16,685 (cash with fiscal agent). At December 31, 2007, restricted assets and net assets relating to the bond indentures were as follows:

	<u>Restricted Assets and Net Assets</u>		
	<u>Sewer</u>	<u>Electric</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
<u>Restricted assets:</u>			
Cash and cash equivalents:			
Future debt service on bonds	\$ 389,008	\$ -	\$ 389,008
Refundable deposits	-	231,768	231,768
Deposits in segregated accounts:			
Current debt service on bonds	296,522	-	296,522
Future debt service on bonds	27,860	-	27,860
<u>Restricted net assets:</u>			
Operations	467,721	-	467,721
Improvements and Replacements	598,545	-	598,545

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 year-end.

The City is in the process of closing the landfill. The landfill closure and postclosure liability of \$3,570,750 at December 31, 2007 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 2007. 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, 2007

NOTE 20 - CONTRACTUAL COMMITMENTS

At December 31, 2007, the City had the following contractual commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Contract Balance</u>
Alexander & Bebout, Inc.	\$ 24,500	\$ -	\$ 24,500
American Municipal Power-Ohio	8,440,315	7,566,879	873,436
Arcadis FPS, Inc.	374,200	281,220	92,980
Athletic Alliance	18,230	5,720	12,510
Celina Landfill	226,500	210,053	16,447
Clemans, Nelson & Associates	25,500	12,809	12,691
Dominion East Ohio	41,550	28,967	12,583
Municipal Energy Services Agency	106,000	79,418	26,582
PSI, Inc.	10,000	-	10,000
R.G. Zachrich Construction	419,292	-	419,292
Reed City Power Line Supply	17,475	3,699	13,776
Solomon Corp.	59,985	-	59,985
Vorys, Sater, And Seymour	18,000	3,784	14,216
Williams Excavating	48,402	-	48,402
Total contractual commitments	<u>\$ 9,829,949</u>	<u>\$ 8,192,549</u>	<u>\$ 1,637,400</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, 2007.

B. Litigation

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

C. Landfill Litigation

The City is involved in litigation, as plaintiff, with Auglaize County seeking reimbursement for environmental monitoring costs at the St. Marys Landfill that the City has incurred and is seeking the requirement of Auglaize County to pay the cost of environmental monitoring at the St. Marys Landfill, including such costs throughout the 30 year post-closure monitoring period, and such costs as required by applicable statutes and regulations. The following activity in relation to the litigation has occurred as of December 31, 2007:

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 21 - CONTINGENCIES - (Continued)

On May 6, 2004, the Van Wert County Court filed a judgment in favor of the City, ordering Auglaize County to pay for all post-closure environmental monitoring costs at the St. Marys Landfill for the entire 30 year post-closure monitoring period or as required by applicable statutes and regulations.

On May 17, 2005, Auglaize County filed an appeal against the City in the Court of Appeals of the Third Appellate Judicial District of Ohio.

On April 10, 2006, the Court of Appeals of the Third Appellate Judicial District of Ohio filed a judgment affirming in part and reversing in part the decision of the Van Wert County Court, with costs to be divided equally between the City and Auglaize County.

On September 11, 2006, the City filed an appeal against Auglaize County in the Ohio Supreme Court.

The litigation concluded in 2008 (see Note 22).

NOTE 22 - SIGNIFICANT SUBSEQUENT EVENT

Landfill Litigation

On January 2, 2008, the Ohio Supreme Court filed a judgment in favor of the City and against Auglaize County, requiring Auglaize County to pay the cost of environmental monitoring at the St. Marys Landfill, including such costs throughout the 30 year postclosure monitoring period, and such costs as required by applicable statutes and regulations, and to reimburse the City for the environmental monitoring costs the City has incurred to date.

On March 31, 2008, the Ohio Supreme Court ordered the amount of this judgment to be \$2,046,114, which shall not accrue interest and shall not be executed on so long as Auglaize County makes payments on the judgment in accordance with the outlined schedule.

At December 31, 2007, the City has recorded a judgment receivable for the \$2,046,114 due from Auglaize County. The revenue associated with the receivable has been recorded as a special item in the refuse enterprise fund.

SUPPLEMENTARY DATA

**CITY OF ST. MARYS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A), (D) CASH FEDERAL DISBURSEMENTS
U.S. ENVIRONMENTAL PROTECTION AGENCY PASSED THROUGH THE OHIO ENVIRONMENTAL PROTECTION AGENCY:			
Congressionally Mandated Projects	66.202	XP-00E27601-0	\$ 481,100
U.S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH THE N/A			
Assistance to Firefighters Grant	97.044	N/A	198,704
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT			
(B) Community Development Block Grants/State's Program	14.228	N/A	1,210,941
(C) HOME Investment Partnerships Program	14.239	N/A	96,160
Total U.S. Department of Housing and Urban Development			1,307,101
Total Federal Financial Assistance			\$ 1,986,905

(A) This schedule was prepared on the cash basis of accounting.

(B) The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on this schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on the property. The City incurred \$39,573 in administrative and other costs during 2007.

Activity in the Community Development Block Grant revolving loan fund during 2007 is as follows:

Beginning loans receivable balance as of January 1, 2007	\$ 1,044,730
Loans Disbursed	220,000
Loan Repayments	(124,422)
Ending loans receivable balance as of December 31, 2007	<u>\$ 1,140,308</u>

Cash balance on hand as of December 31, 2007	\$ 951,368
Delinquent amounts due as of December 31, 2007	\$ 444,154

(C) At December 31, 2007, the City had a HOME Investment Partnerships Program cash balance of \$96,160 which is subject to compliance requirements set forth by the awarding agency.

(D) Certain federal programs require that the City contribute non-federal funds (matching funds) to support the federally-funded programs. The City complied with the matching requirements. The expenditures of non-federal matching funds are not included on the schedule.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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, the 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, 2007, which collectively comprise the City of St. Marys' basic financial statements and have issued our report thereon dated June 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of St. Marys' internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of St. Marys' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of St. Marys' ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of St. Marys' financial statements that is more than inconsequential will not be prevented or detected by the City of St. Marys' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of St. Marys' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of Council and Mayor
City of St. Marys

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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and City Council of St. Marys and federal awarding agencies and pass-through entities 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 5, 2008



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to the City's
Major Programs and on Internal Control Over Compliance In
Accordance With OMB Circular A-133**

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

Compliance

We have audited the compliance of the City of St. Marys, Auglaize County, Ohio, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The City of St. Marys' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of St. Marys' management. Our responsibility is to express an opinion on the City of St. Marys' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of St. Marys' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of St. Marys' compliance with those requirements.

Members of Council and Mayor
City of St. Marys

In our opinion, the City of St. Marys complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the City of St. Marys is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of St. Marys' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of St. Marys' internal control over compliance.

A control deficiency in the City of St. Marys' internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of St. Marys' ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City of St. Marys' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of St. Marys' internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, members of Council and Mayor of the City of St. Marys and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
June 5, 2008

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007**

1. SUMMARY OF AUDITORS' RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (listed):</i>	Congressionally Mandated Projects CFDA #66.202; Community Development Block Grants/State's Program CFDA #14.228
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS FOR FEDERAL AWARDS AND QUESTIONED COSTS

None



Mary Taylor, CPA
Auditor of State

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
SEPTEMBER 23, 2008**