

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

*Basic  
Financial Statements*  
(Audited)

For The Year Ended  
December 31, 2003

**DOUGLAS M. RIESEN, CITY AUDITOR**





**Auditor of State  
Betty Montgomery**

Members of Council  
City of St. Marys

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

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

July 28, 2004

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

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# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 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, (the “City”) as of and for the year ended December 31, 2003, which collectively comprise the financial statements as listed in the table of contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2004, on our consideration of the City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management’s Discussion and Analysis on pages 3 through 18 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We 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 thereon.

Trimble, Julian & Grube, Inc.  
June 17, 2004

## CITY OF ST. MARYS, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003 UNAUDITED

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

#### Financial Highlights

Key financial highlights for 2003 are as follows:

- The total net assets of the City increased \$2,290,956. Net assets of governmental activities increased \$2,084,300 or 8.46% over 2002 and net assets of business-type activities increased \$206,656 or 1.05% from 2002.
- General revenues accounted for \$5,735,163 of total governmental activities revenue. Program specific revenues accounted for \$1,784,687 or 23.73% of total governmental activities revenue.
- The City had \$4,665,100 in expenses related to governmental activities; \$1,784,687 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,880,413 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,735,163.
- The general fund had revenues of \$4,590,077 in 2003. This represents an increase of \$171,883 from 2002 revenues. The expenditures of the general fund, which totaled \$3,175,700 in 2003, increased \$376,538 from 2002. The net decrease in fund balance for the general fund was \$232,500 or 5.20%.
- The voted income tax fund had revenues of \$1,834,718 in 2003. This represents an increase of \$719,306 from 2002 revenues. The expenditures of the voted income tax fund, which totaled \$1,241,795 in 2003, increased \$100,379 from 2002. The net increase in fund balance for the voted income tax fund was \$592,923 or 24.78%.
- The recreational facility construction fund had revenues of \$6,060 in 2003. This represents an increase of \$865 from 2002 revenues. The expenditures of the recreational facility construction fund, which totaled \$2,209,056 in 2003, increased \$2,138,308 from 2002. The net decrease in fund balance for the recreational facility construction fund was \$2,202,996 or 176.88%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, Electric and Refuse enterprise funds, increased in 2003 by \$206,656. This increase in net assets was due primarily to operating income and an increase in transfers.
- In the general fund, the actual revenues came in \$200,966 lower than they were in the final budget and actual expenditures were \$517,970 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues were the same in the original and the final budget. Budgeted expenditures increased \$51,566 from the original to the final budget as a result of an anticipated increase in wages and benefits.

#### Using this Annual Financial Report

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

## CITY OF ST. MARYS, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003 UNAUDITED

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

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

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

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

##### *Fund Financial Statements*

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

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

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

***Governmental Funds***

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

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

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

***Proprietary Funds***

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

***Fiduciary Funds***

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

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

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

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

**Government-Wide Financial Analysis**

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

The table below provides a summary of the City's net assets for 2003 and 2002:

	<b>Net Assets</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<u>Assets</u>						
Current and other assets	\$ 14,186,774	\$ 14,571,083	\$ 15,840,575	\$ 15,446,549	\$ 30,027,349	\$ 30,017,632
Capital assets	<u>14,916,005</u>	<u>12,988,984</u>	<u>19,698,134</u>	<u>20,232,487</u>	<u>34,614,139</u>	<u>33,221,471</u>
Total assets	<u>29,102,779</u>	<u>27,560,067</u>	<u>35,538,709</u>	<u>35,679,036</u>	<u>64,641,488</u>	<u>63,239,103</u>
<u>Liabilities</u>						
Long-term liabilities	508,475	1,886,476	11,003,896	11,221,586	11,512,371	13,108,062
Other liabilities	<u>1,879,078</u>	<u>1,042,665</u>	<u>4,732,704</u>	<u>4,861,997</u>	<u>6,611,782</u>	<u>5,904,662</u>
Total liabilities	<u>2,387,553</u>	<u>2,929,141</u>	<u>15,736,600</u>	<u>16,083,583</u>	<u>18,124,153</u>	<u>19,012,724</u>
<u>Net Assets</u>						
Invested capital assets, net of related debt	13,527,695	12,519,306	11,121,705	10,924,112	24,649,400	23,443,418
Restricted	8,261,308	8,193,758	6,342,247	5,749,558	14,603,555	13,943,316
Unrestricted	<u>4,926,223</u>	<u>3,917,862</u>	<u>2,338,157</u>	<u>2,921,783</u>	<u>7,264,380</u>	<u>6,839,645</u>
Total net assets	<u>\$ 26,715,226</u>	<u>\$ 24,630,926</u>	<u>\$ 19,802,109</u>	<u>\$ 19,595,453</u>	<u>\$ 46,517,335</u>	<u>\$ 44,226,379</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$46,517,335. At year-end, net assets were \$26,715,226 and \$19,802,109 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 53.55% 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, 2003, was \$13,527,695 and \$11,121,705 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, 2003, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

A portion of the City's net assets, \$14,603,555, 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 \$4,926,223 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2003 and 2002.

**Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 857,159	\$ 572,601	\$ 13,309,548	\$ 12,693,917	\$ 14,166,707	\$ 13,266,518
Operating grants and contributions	263,448	536,976	-	-	263,448	536,976
Capital grants and contributions	664,080	2,815	-	296,616	664,080	299,431
Total program revenues	<u>1,784,687</u>	<u>1,112,392</u>	<u>13,309,548</u>	<u>12,990,533</u>	<u>15,094,235</u>	<u>14,102,925</u>
General revenues:						
Property taxes	1,150,689	1,148,353	-	-	1,150,689	1,148,353
Income taxes	3,726,387	3,320,929	-	-	3,726,387	3,320,929
Other local taxes	-	300,315	20,068	-	20,068	300,315
Unrestricted grants	533,905	559,347	-	49,955	533,905	609,302
Gain from sale of assets	-	80,603	-	20,484	-	101,087
Interest	197,759	225,221	57,570	271,446	255,329	496,667
Miscellaneous	126,423	27,061	171,838	471,467	298,261	498,528
Total general revenues	<u>5,735,163</u>	<u>5,661,829</u>	<u>249,476</u>	<u>813,352</u>	<u>5,984,639</u>	<u>6,475,181</u>
Total revenues	<u>7,519,850</u>	<u>6,774,221</u>	<u>13,559,024</u>	<u>13,803,885</u>	<u>21,078,874</u>	<u>20,578,106</u>
Expenses:						
General government	834,897	664,189	-	-	834,897	664,189
Security of persons and property	2,111,084	2,074,589	-	-	2,111,084	2,074,589
Public health and welfare	10,477	11,196	-	-	10,477	11,196
Transportation	1,340,325	631,187	-	-	1,340,325	631,187
Community environment	25,837	82,304	-	-	25,837	82,304
Leisure time activity	305,200	305,861	-	-	305,200	305,861
Interest and fiscal charges	37,280	24,476	-	-	37,280	24,476
Water	-	-	1,065,797	1,223,795	1,065,797	1,223,795
Sewer	-	-	1,082,730	1,085,887	1,082,730	1,085,887
Electric	-	-	10,563,081	10,420,060	10,563,081	10,420,060
Refuse	-	-	1,411,210	822,220	1,411,210	822,220
Total expenses	<u>4,665,100</u>	<u>3,793,802</u>	<u>14,122,818</u>	<u>13,551,962</u>	<u>18,787,918</u>	<u>17,345,764</u>
Increase (decrease) in net assets						
before transfers	2,854,750	2,980,419	(563,794)	251,923	2,290,956	3,232,342
Transfers	<u>(770,450)</u>	<u>(771,651)</u>	<u>770,450</u>	<u>771,651</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>\$ 2,084,300</u>	<u>\$ 2,208,768</u>	<u>\$ 206,656</u>	<u>\$ 1,023,574</u>	<u>\$ 2,290,956</u>	<u>\$ 3,232,342</u>

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED

**Governmental Activities**

Governmental activities net assets increased \$2,084,300 in 2003. This increase is a result of slightly increasing expenses and an increase in income taxes versus amounts reported in the prior year.

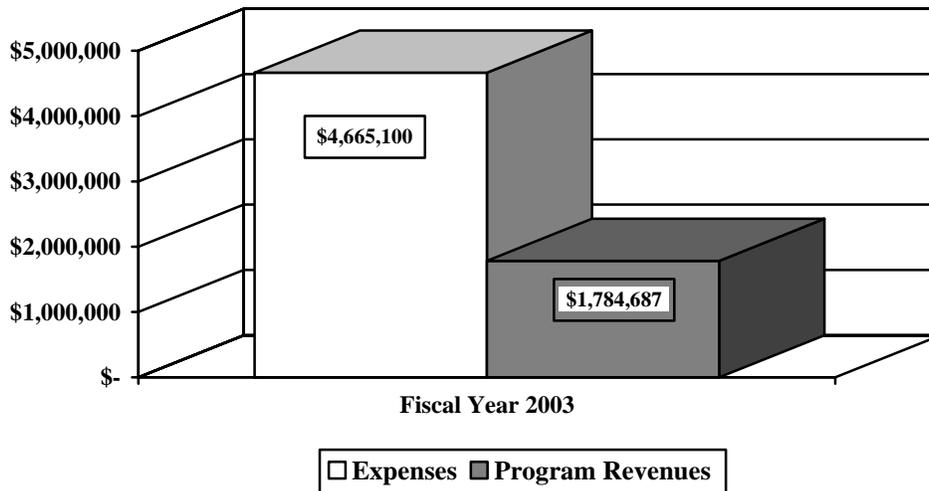
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$2,111,084 of the total expenses of the City. These expenses were partially funded by \$14,158 in direct charges to users of the services. Transportation expenses totaled \$1,340,325. Transportation expenses were partially funded by \$12,509 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$263,448 in operating grants and contributions and \$664,080 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$254,948, subsidized transportation programs, and \$8,500 subsidized security of persons and property. Of the total capital grants and contributions, \$660,758, subsidized transportation programs.

General revenues totaled \$5,735,163, and amounted to 76.27% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,877,076. 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 \$533,905. In August 2001, the state placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2003.

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**

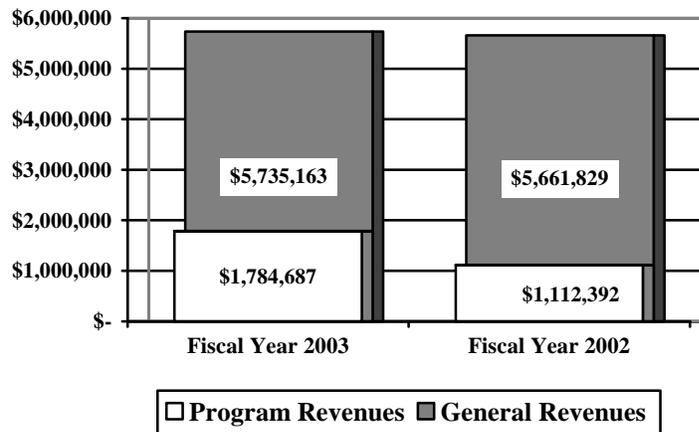
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

**Governmental Activities**

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>	Total Cost of Services <u>2002</u>	Net Cost of Services <u>2002</u>
Program expenses:				
General government	\$ 834,897	\$ 563,878	\$ 664,189	\$ 449,178
Security of persons and property	2,111,084	2,088,426	2,074,589	2,010,039
Public health and welfare	10,477	(79,234)	11,196	(109,809)
Transportation	1,340,325	412,110	631,187	555,909
Community environment	25,837	14,668	82,304	(430,306)
Leisure time activity	305,200	237,616	305,861	264,311
Interest and fiscal charges	<u>37,280</u>	<u>(357,051)</u>	<u>24,476</u>	<u>(57,912)</u>
 Total expenses	 <u>\$ 4,665,100</u>	 <u>\$ 2,880,413</u>	 <u>\$ 3,793,802</u>	 <u>\$ 2,681,410</u>

The dependence upon general revenues for governmental activities is apparent, with 61.74% of expenses supported through taxes and other general revenues.

**Governmental Activities - General and Program Revenues**



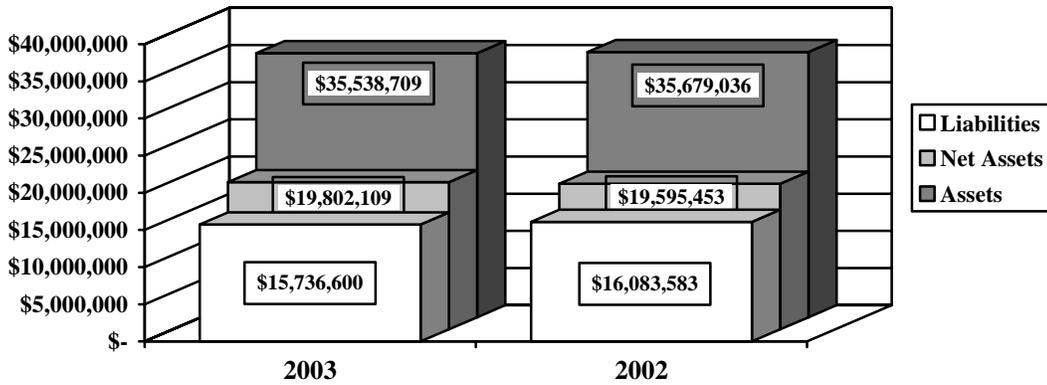
**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

**Business-Type Activities**

Business-type activities include the water, sewer, electric and refuse enterprise funds. These programs had program revenues of \$13,309,548, general revenues of \$249,476 and expenses of \$14,122,818 for 2003. 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 ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

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

The City's governmental funds (as presented on the balance sheet on page 23) reported a combined fund balance of \$11,178,245 which is \$1,605,444 lower than last year's total of \$12,783,689. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2003 for all major and nonmajor governmental funds.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

	<u>Fund Balances</u> <u>12/31/03</u>	<u>Fund Balances</u> <u>12/31/02</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 4,239,490	\$ 4,471,990	\$ (232,500)
Voted income tax	2,985,267	2,392,344	592,923
Recreational Facility Construction	(957,549)	1,245,447	(2,202,996)
Other Nonmajor Governmental Funds	<u>4,911,037</u>	<u>4,673,908</u>	<u>237,129</u>
Total	<u>\$ 11,178,245</u>	<u>\$ 12,783,689</u>	<u>\$ (1,605,444)</u>

***General Fund***

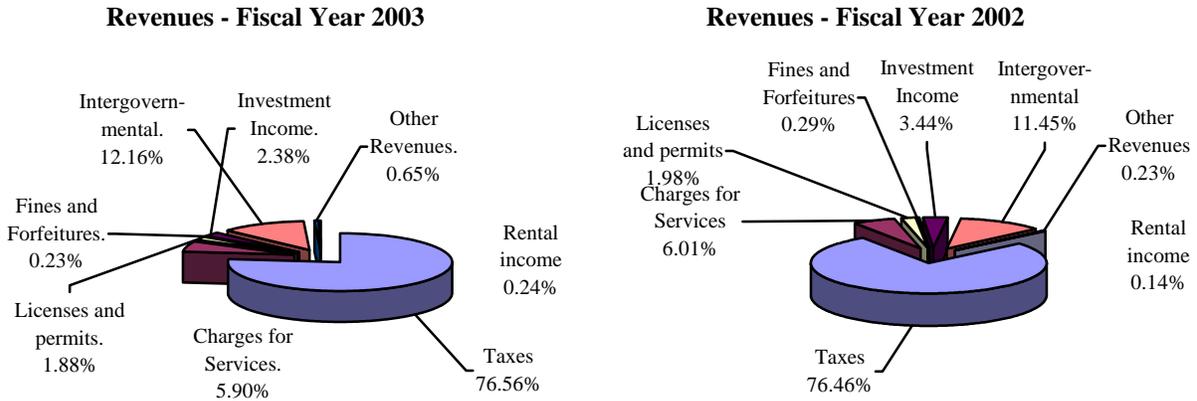
The City's general fund balance decreased \$232,500, primarily due to an increase in expenditures in the amount of \$376,538. The table that follows assists in illustrating the revenues of the general fund.

	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 3,513,747	\$ 3,378,080	4.02 %
Charges for services	271,019	265,634	2.03 %
Licenses and permits	86,389	87,430	(1.19) %
Fines and forfeitures	10,486	12,794	(18.04) %
Investment income	109,389	151,944	(28.01) %
Rental income	11,169	6,140	81.91 %
Intergovernmental	558,247	505,866	10.35 %
Other	<u>29,631</u>	<u>10,306</u>	187.51 %
Total	<u>\$ 4,590,077</u>	<u>\$ 4,418,194</u>	3.89 %

Taxes revenue increased \$135,667 or 4.02% from the prior year. This increase is attributed to an increase in the income tax revenues processed by the City of St. Marys in 2003. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. The increase in other revenue is due to a reclassification of other financing sources in 2002. All other revenue remained comparable to 2002.

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED



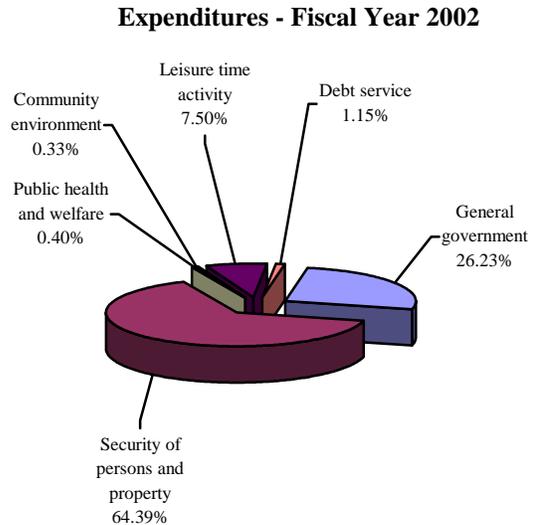
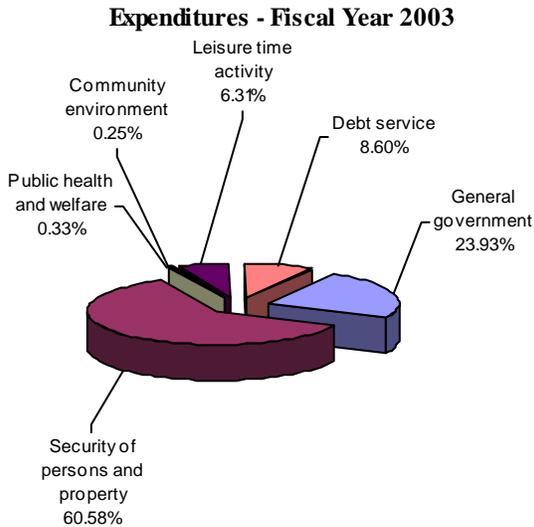
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percent</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 760,000	\$ 734,298	3.50 %
Security of person and property	1,923,731	1,802,366	6.73 %
Public health and welfare	10,477	11,196	(6.42) %
Community environment	7,985	9,361	(14.70) %
Leisure time activity	200,446	209,841	(4.48) %
Debt Service	<u>273,061</u>	<u>32,100</u>	750.66 %
Total	<u>\$ 3,175,700</u>	<u>\$ 2,799,162</u>	13.45 %

The most significant increase was in the area of debt service. This increase is due to the City paying additional principal toward its outstanding bond anticipation note. The largest expenditure line item, security of persons and property, increased slightly which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**



***Voted Income Tax Fund***

The voted income tax fund had revenues of \$1,834,718 in 2003. This represents an increase of \$719,306 from 2002 revenues. The expenditures of the voted income tax fund, which totaled \$1,241,795 in 2003, increased \$100,379 from 2002. The net increase in fund balance for the voted income tax fund was \$592,923 or 24.78%.

***Recreational Facility Construction Fund***

The recreational facility construction fund had revenues of \$6,060 in 2003. This represents an increase of \$865 from 2002 revenues. The expenditures of the recreational facility construction fund, which totaled \$2,209,056 in 2003, increased \$2,138,308 from 2002. The net decrease in fund balance for the recreational facility construction fund was \$2,202,996 or 176.88%.

***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 \$355,955 from \$8,810,124 to \$8,454,169. Actual revenues of \$4,966,165 fell short of final budgeted revenues by \$200,966. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures and other financing uses came in \$713,952 lower than the final budgeted amounts.

**CITY OF ST. MARYS, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

***Proprietary Funds***

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

***Water Fund***

The water fund had operating revenues of \$1,246,058 in 2003. This represents an increase of \$1,205 from 2002 operating revenues. The operating expenses of the water fund, which totaled \$1,024,332 in 2003, decreased \$131,068 from 2002. The increase in net assets for the water fund was \$166,943 or 2.87%.

***Sewer Fund***

The sewer fund had operating revenues of \$1,363,399 in 2003. This represents an increase of \$143,544 from 2002 operating revenues. The operating expenses of the sewer fund, which totaled \$964,516 in 2003, decreased \$5,111 from 2002. The increase in net assets for the sewer fund was \$281,077 or 6.10%.

***Electric Fund***

The electric fund had operating revenues of \$9,964,909 in 2003. This represents an increase of \$132,194 from 2002 operating revenues. The operating expenses of the electric fund, which totaled \$10,186,423 in 2003, increased \$410,368 from 2002. The increase in net assets for the electric fund was \$137,544 or 1.28%.

***Refuse Fund***

The refuse fund had operating revenues of \$907,020 in 2003. This represents an increase of \$39,058 from 2002 operating revenues. The operating expenses of the refuse fund, which totaled \$1,411,895 in 2003, increased \$627,743 from 2002. The decrease in net assets for the refuse fund was \$112,316 or 6.77%.

**CITY OF ST. MARYS, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**  
**UNAUDITED**

**Capital Assets and Debt Administration**

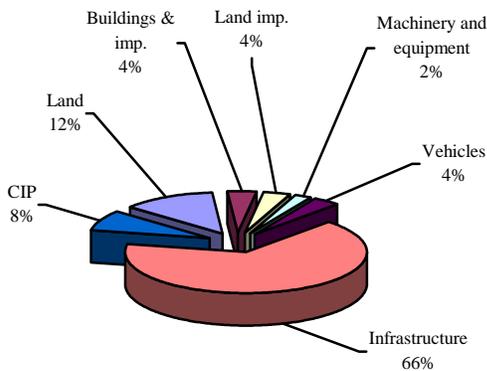
**Capital Assets**

At the end of fiscal 2003, the City had \$34,614,139 (net of accumulated depreciation) invested in land, buildings and improvements, land improvements, machinery and equipment, vehicles, infrastructure and construction in progress (CIP). Of this total, \$14,916,005 was reported in governmental activities and \$19,698,134 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

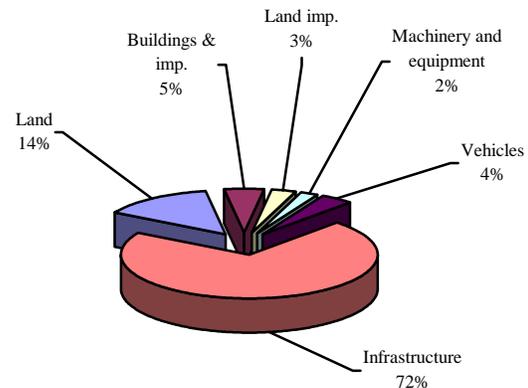
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 1,851,561	\$ 1,851,561	\$ 1,194,470	\$ 1,194,470	\$ 3,046,031	\$ 3,046,031
Buildings and improvements	600,090	624,034	1,886,542	1,840,915	2,486,632	2,464,949
Land improvements	550,423	424,162	3,229,356	3,468,436	3,779,779	3,892,598
Machinery and equipment	300,100	261,429	2,627,248	2,655,362	2,927,348	2,916,791
Vehicles	540,184	543,413	614,811	736,212	1,154,995	1,279,625
Infrastructure	9,864,591	9,284,385	10,145,707	10,337,092	20,010,298	19,621,477
Construction in progress	1,209,056	-	-	-	1,209,056	-
<b>Total</b>	<b>\$ 14,916,005</b>	<b>\$ 12,988,984</b>	<b>\$ 19,698,134</b>	<b>\$ 20,232,487</b>	<b>\$ 34,614,139</b>	<b>\$ 33,221,471</b>

The following graphs show the breakdown of governmental capital assets by category for 2003 and 2002.

**Capital Assets - Governmental Activities  
2003**



**Capital Assets - Governmental Activities  
2002**

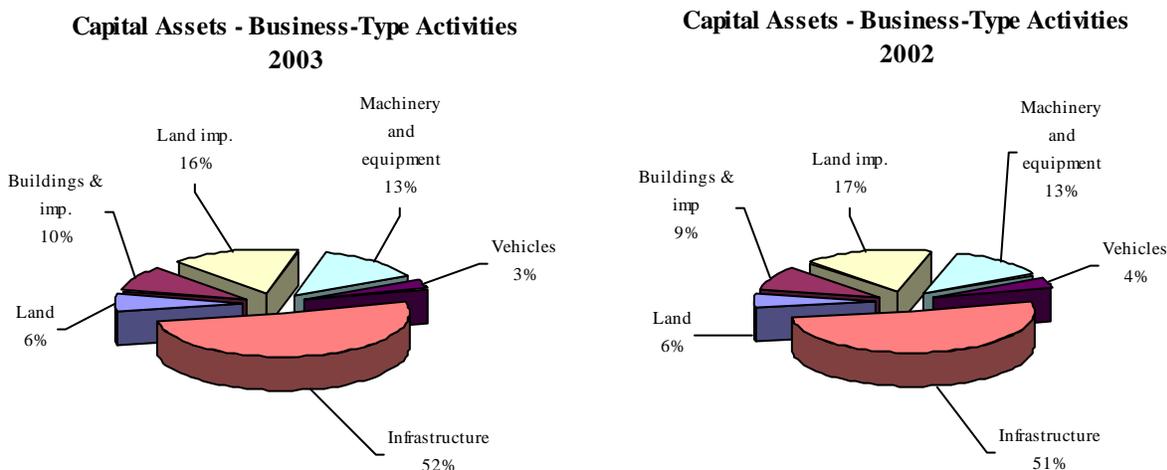


The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, right-of-way, street lighting, and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 66.00% 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, 2003  
UNAUDITED**

The following graphs show the breakdown of business-type capital assets by category for 2003 and 2002.



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 55.43% of the City's total business-type capital assets. Additional information on the City's capital assets can be found in Note 10.

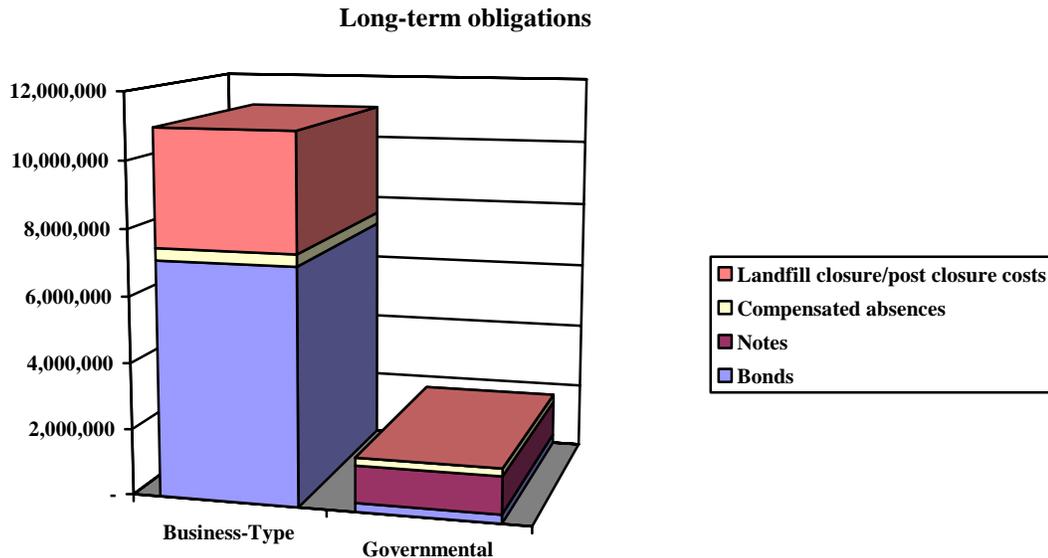
***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2003 and 2002:

	Governmental Activities	
	<u>2003</u>	<u>2002</u>
Special assessment bonds	\$ 273,310	\$ 261,930
Compensated absences	<u>235,165</u>	<u>237,546</u>
Total long-term obligations	<u>\$ 508,475</u>	<u>\$ 499,476</u>
	Business-Type Activities	
Revenue bonds	\$ 2,320,000	\$ 2,585,833
General obligation bonds	1,727,918	1,793,198
Mortgage revenue bonds	<u>3,065,000</u>	<u>3,381,250</u>
Total bonds	<u>7,112,918</u>	<u>7,760,281</u>
Compensated absences	358,704	336,083
Landfill closure/post closure costs	<u>3,922,845</u>	<u>3,565,930</u>
Total long-term obligation	<u>\$ 11,394,467</u>	<u>\$ 11,662,294</u>

**CITY OF ST. MARYS, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**  
**UNAUDITED**

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



**Economic Conditions and Outlook**

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

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

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

AAP St. Marys Corporation, a division of Hitachi Metals America Ltd., established their aluminum wheel casting plant in St. Marys in 1988. AAP St. Marys has also experienced tremendous growth, with employment levels increasing from the initial 65 employees to the 400 employees today, these 400 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, 2003 UNAUDITED

St. Marys has other manufacturing industries that add stability to the local economy. Parker Hannifin Corporation, employing 200 workers, manufactures hydraulic cylinder components and recently constructed a new plant in the City. Omni Manufacturing Inc., a metal tooling and stamping plant, has enjoyed steady growth with employment levels near 100. In addition, The St. Marys Foundry, ProPet Classic Delight, and others combine to offer diverse manufacturing jobs for families in the St. Marys area. Joint Township District Memorial Hospital remains the top non-manufacturing sector employer with over 600 workers.

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

#### **For the Future**

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

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

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

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

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

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

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

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

**CITY OF ST. MARYS, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2003

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 10,732,119	\$ 5,044,266	\$ 15,776,385
Investments . . . . .	-	273,310	273,310
Cash in segregated accounts . . . . .	149,141	-	149,141
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	704,849	-	704,849
Real and other taxes . . . . .	403,206	65,737	468,943
Accounts . . . . .	35,555	1,211,197	1,246,752
Loans. . . . .	1,388,836	-	1,388,836
Special assessments . . . . .	258,290	1,578	259,868
Accrued interest . . . . .	3,464	3,760	7,224
Internal balance. . . . .	(10,779)	10,779	-
Due from other governments . . . . .	344,573	-	344,573
Prepayments. . . . .	52,676	185,157	237,833
Materials and supplies inventory . . . . .	56,121	500,155	556,276
Investment in joint venture . . . . .	-	1,470,342	1,470,342
Unamortized bond issue costs . . . . .	-	175,068	175,068
Restricted assets:			
Equity in pooled cash and cash equivalents . . . . .	-	5,738,884	5,738,884
Deposits in segregated accounts. . . . .	-	980,269	980,269
Refundable deposits . . . . .	-	180,073	180,073
Cash with fiscal agent . . . . .	68,723	-	68,723
Capital assets:			
Land and construction-in-progress . . . . .	3,060,617	1,194,470	4,255,087
Depreciable capital assets, net . . . . .	11,855,388	18,503,664	30,359,052
Total capital assets. . . . .	<u>14,916,005</u>	<u>19,698,134</u>	<u>34,614,139</u>
Total assets. . . . .	<u>29,102,779</u>	<u>35,538,709</u>	<u>64,641,488</u>

-continued

**CITY OF ST. MARYS, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2003

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	83,588	641,133	724,721
Contracts payable . . . . .	-	55,461	55,461
Retainage payable . . . . .	29,564	-	29,564
Accrued wages and benefits . . . . .	100,724	108,706	209,430
Due to other governments . . . . .	117,701	41,499	159,200
Claims payable . . . . .	49,046	-	49,046
Judgements payable . . . . .	8,000	-	8,000
Deferred revenue . . . . .	369,903	-	369,903
Accrued interest payable . . . . .	5,552	99,311	104,863
Notes payable . . . . .	1,115,000	3,582,000	4,697,000
Payable from restricted assets:			
Accrued interest payable . . . . .	-	24,521	24,521
Refundable deposits . . . . .	-	180,073	180,073
Long-term liabilities:			
Due within one year . . . . .	238,758	955,494	1,194,252
Due in more than one year . . . . .	269,717	10,048,402	10,318,119
<b>Total liabilities . . . . .</b>	<u>2,387,553</u>	<u>15,736,600</u>	<u>18,124,153</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	13,527,695	11,121,705	24,649,400
Restricted for:			
Capital projects . . . . .	5,438,529	-	5,438,529
Debt service . . . . .	43,650	-	43,650
Operations . . . . .	-	4,080,531	4,080,531
Improvements and replacements . . . . .	-	2,261,716	2,261,716
Other purposes . . . . .	2,779,129	-	2,779,129
Unrestricted . . . . .	<u>4,926,223</u>	<u>2,338,157</u>	<u>7,264,380</u>
<b>Total net assets . . . . .</b>	<u>\$ 26,715,226</u>	<u>\$ 19,802,109</u>	<u>\$ 46,517,335</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government . . . . .	\$ 834,897	\$ 271,019	\$ -	\$ -
Security of persons and property . . . . .	2,111,084	14,158	8,500	-
Public health and welfare . . . . .	10,477	86,389	-	3,322
Transportation . . . . .	1,340,325	12,509	254,948	660,758
Community environment . . . . .	25,837	11,169	-	-
Leisure time activity . . . . .	305,200	67,584	-	-
Interest and fiscal charges. . . . .	37,280	394,331	-	-
Total governmental activities . . . . .	<u>4,665,100</u>	<u>857,159</u>	<u>263,448</u>	<u>664,080</u>
<b>Business-type Activities:</b>				
Water . . . . .	1,065,797	1,214,313	-	-
Sewer . . . . .	1,082,730	1,356,164	-	-
Electric . . . . .	10,563,081	9,869,212	-	-
Refuse . . . . .	1,411,210	869,859	-	-
Total business-type activities . . . . .	<u>14,122,818</u>	<u>13,309,548</u>	<u>-</u>	<u>-</u>
Total primary government . . . . .	<u>\$ 18,787,918</u>	<u>\$ 14,166,707</u>	<u>\$ 263,448</u>	<u>\$ 664,080</u>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	
Police and fire pension. . . . .	
Income taxes levied for:	
General purposes. . . . .	
Capital projects . . . . .	
Other local taxes . . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	
Miscellaneous . . . . .	
Total general revenues. . . . .	
Transfers. . . . .	
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**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (563,878)	\$ -	\$ (563,878)
(2,088,426)	-	(2,088,426)
79,234	-	79,234
(412,110)	-	(412,110)
(14,668)	-	(14,668)
(237,616)	-	(237,616)
357,051	-	357,051
<u>(2,880,413)</u>	<u>-</u>	<u>(2,880,413)</u>
-	148,516	148,516
-	273,434	273,434
-	(693,869)	(693,869)
-	<u>(541,351)</u>	<u>(541,351)</u>
-	<u>(813,270)</u>	<u>(813,270)</u>
<u>(2,880,413)</u>	<u>(813,270)</u>	<u>(3,693,683)</u>
1,072,873	-	1,072,873
77,816	-	77,816
2,514,760	-	2,514,760
1,211,627	-	1,211,627
-	20,068	20,068
533,905	-	533,905
197,759	57,570	255,329
126,423	171,838	298,261
5,735,163	249,476	5,984,639
<u>(770,450)</u>	<u>770,450</u>	<u>-</u>
2,084,300	206,656	2,290,956
24,630,926	19,595,453	44,226,379
<u>\$ 26,715,226</u>	<u>\$ 19,802,109</u>	<u>\$ 46,517,335</u>

**CITY OF ST. MARYS, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2003

	<u>General</u>	<u>Voted Income Tax</u>	<u>Recreational Facility Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 3,988,001	\$ 2,786,274	\$ 42,451	\$ 3,632,793	\$ 10,449,519
Cash in segregated accounts . . . . .	-	145,083	-	-	145,083
Receivables (net of allowance for uncollectibles):					
Income taxes . . . . .	472,249	232,600	-	-	704,849
Real and other taxes . . . . .	314,712	-	-	88,494	403,206
Accounts . . . . .	34,579	-	-	925	35,504
Loans . . . . .	-	-	-	1,388,836	1,388,836
Special assessments . . . . .	-	-	-	258,290	258,290
Accrued interest . . . . .	3,271	175	-	1	3,447
Due from other funds . . . . .	63,051	10,377	-	-	73,428
Due from other governments . . . . .	212,138	-	-	132,435	344,573
Prepayments . . . . .	42,449	-	-	10,227	52,676
Materials and supplies inventory . . . . .	23,833	-	-	11,448	35,281
Restricted assets:					
Cash with fiscal agent . . . . .	-	-	-	68,723	68,723
<b>Total assets . . . . .</b>	<u>\$ 5,154,283</u>	<u>\$ 3,174,509</u>	<u>\$ 42,451</u>	<u>\$ 5,592,172</u>	<u>\$ 13,963,415</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 32,761	\$ 26,959	\$ -	\$ 13,688	\$ 73,408
Retainage payable . . . . .	-	29,564	-	-	29,564
Accrued wages and benefits . . . . .	82,811	880	-	14,837	98,528
Due to other governments . . . . .	35,458	790	-	80,678	116,926
Judgements payable . . . . .	8,000	-	-	-	8,000
Deferred revenue . . . . .	755,763	131,049	-	456,932	1,343,744
Notes payable . . . . .	-	-	1,000,000	115,000	1,115,000
<b>Total liabilities . . . . .</b>	<u>914,793</u>	<u>189,242</u>	<u>1,000,000</u>	<u>681,135</u>	<u>2,785,170</u>
<b>Fund balances:</b>					
Reserved for encumbrances . . . . .	90,486	183,697	-	48,350	322,533
Reserved for materials and supplies inventory . . . . .	23,833	-	-	11,448	35,281
Reserved for prepayments . . . . .	42,449	-	-	10,227	52,676
Reserved for loans . . . . .	-	-	-	1,388,836	1,388,836
Reserved for debt service . . . . .	-	-	-	36,837	36,837
Reserved for restricted assets . . . . .	-	-	-	68,723	68,723
Unreserved, undesignated, reported in:					
General fund . . . . .	4,082,722	-	-	-	4,082,722
Special revenue funds . . . . .	-	-	-	1,287,911	1,287,911
Capital projects funds . . . . .	-	2,801,570	(957,549)	2,058,705	3,902,726
<b>Total fund balances (Deficit) . . . . .</b>	<u>4,239,490</u>	<u>2,985,267</u>	<u>(957,549)</u>	<u>4,911,037</u>	<u>11,178,245</u>
<b>Total liabilities and fund balances . . . . .</b>	<u>\$ 5,154,283</u>	<u>\$ 3,174,509</u>	<u>\$ 42,451</u>	<u>\$ 5,592,172</u>	<u>\$ 13,963,415</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2003

**Total governmental fund balances** \$ 11,178,245

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

Capital assets used in governmental activities (excluding internal service fund capital assets) are not financial resources and therefore are not reported in the funds. 14,858,778

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

Income tax revenue	\$	396,587
Property tax revenue		32,916
Special assessment revenue		258,290
Intergovernmental revenue		282,601
Interest revenue		3,447

Total 973,841

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 \$84,207, are: 211,737

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

Special assessment bonds		(273,310)
Compensated absences		(228,513)
Accrued interest		(5,552)

Total (507,375)

**Net assets of governmental activities** \$ 26,715,226

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<b>General</b>	<b>Voted Income Tax</b>	<b>Recreational Facility Construction</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
Income taxes . . . . .	\$ 2,458,226	\$ 1,183,782	\$ -	\$ -	\$ 3,642,008
Real and other taxes . . . . .	1,055,521	-	-	73,654	1,129,175
Charges for services . . . . .	271,019	10,377	-	67,584	348,980
Licenses, permits and fees . . . . .	86,389	-	-	-	86,389
Fines and forfeitures . . . . .	10,486	-	-	3,672	14,158
Special assessments . . . . .	-	-	-	145,769	145,769
Intergovernmental . . . . .	558,247	530,020	-	395,648	1,483,915
Investment income . . . . .	109,389	31,640	6,060	50,649	197,738
Rental income . . . . .	11,169	-	-	-	11,169
Other . . . . .	29,631	78,899	-	4,375	112,905
Total revenues . . . . .	<u>4,590,077</u>	<u>1,834,718</u>	<u>6,060</u>	<u>741,351</u>	<u>7,172,206</u>
<b>Expenditures:</b>					
Current:					
General government . . . . .	760,000	-	-	-	760,000
Security of persons and property. . . . .	1,923,731	-	-	276,056	2,199,787
Public health and welfare . . . . .	10,477	-	-	-	10,477
Transportation . . . . .	-	-	-	621,494	621,494
Community environment. . . . .	7,985	-	-	16,514	24,499
Leisure time activity . . . . .	200,446	-	-	59,102	259,548
Capital outlay. . . . .	-	1,241,795	1,209,056	271,006	2,721,857
Debt service:					
Principal retirement . . . . .	250,000	-	1,000,000	351,930	1,601,930
Interest and fiscal charges . . . . .	23,061	-	-	16,815	39,876
Total expenditures . . . . .	<u>3,175,700</u>	<u>1,241,795</u>	<u>2,209,056</u>	<u>1,612,917</u>	<u>8,239,468</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>1,414,377</u>	<u>592,923</u>	<u>(2,202,996)</u>	<u>(871,566)</u>	<u>(1,067,262)</u>
<b>Other financing sources (uses):</b>					
Proceeds from sale of bonds . . . . .	-	-	-	82,710	82,710
Proceeds from sale of notes . . . . .	-	-	-	143,600	143,600
Proceeds from sale of capital assets . . . . .	13,518	-	-	-	13,518
Transfers in . . . . .	-	-	-	882,841	882,841
Transfers out . . . . .	<u>(1,651,565)</u>	<u>-</u>	<u>-</u>	<u>(1,726)</u>	<u>(1,653,291)</u>
Total other financing sources (uses) . . . . .	<u>(1,638,047)</u>	<u>-</u>	<u>-</u>	<u>1,107,425</u>	<u>(530,622)</u>
Net change in fund balances . . . . .	(223,670)	592,923	(2,202,996)	235,859	(1,597,884)
<b>Fund balances at beginning of year. . . . .</b>	4,471,990	2,392,344	1,245,447	4,673,908	12,783,689
<b>Increase (decrease) in reserve for inventory . . . . .</b>	(8,830)	-	-	1,270	(7,560)
<b>Fund balances (deficit) at end of year . . . . .</b>	<u>\$ 4,239,490</u>	<u>\$ 2,985,267</u>	<u>\$ (957,549)</u>	<u>\$ 4,911,037</u>	<u>\$ 11,178,245</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2003

**Net change in fund balances - total governmental funds** \$ (1,597,884)

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

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 (\$2,836,777) exceeded depreciation expense (\$903,302) in the current period. Both amounts are exclusive of internal service funds activity. 1,933,475

Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed. (7,560)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 332,438

Proceeds of bonds and notes are reported as an other financing source in the governmental funds, but as an increase in liabilities in governmental activities. (226,310)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,601,930

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. 2,596

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. 2,664

The internal service funds used by management to charge the costs of employee insurance and the maintenance garage to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds, including an internal balance of \$84,207, is allocated among the governmental activities. 42,951

**Change in net assets of governmental activities.** \$ 2,084,300

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, 2003

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Income taxes . . . . .	\$ 3,721,149	\$ 3,721,149	\$ 3,576,421	\$ (144,728)
Real and other taxes . . . . .	356,671	356,671	322,782	(33,889)
Charges for services . . . . .	275,194	275,194	264,491	(10,703)
Licenses, permits and fees . . . . .	89,987	89,987	86,487	(3,500)
Fines and forfeitures . . . . .	10,910	10,910	10,486	(424)
Intergovernmental . . . . .	579,303	579,303	576,789	(2,514)
Investment income . . . . .	116,860	116,860	112,315	(4,545)
Rental income . . . . .	11,621	11,621	11,169	(452)
Other . . . . .	5,436	5,436	5,225	(211)
Total revenues . . . . .	<u>5,167,131</u>	<u>5,167,131</u>	<u>4,966,165</u>	<u>(200,966)</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	904,370	912,093	792,923	119,170
Security of persons and property . . . . .	2,460,597	2,481,608	2,157,373	324,235
Public health and welfare . . . . .	11,950	12,052	10,477	1,575
Community environment . . . . .	10,871	10,963	9,531	1,432
Leisure time activities . . . . .	213,604	233,582	203,063	30,519
Debt service:				
Principal retirement . . . . .	285,138	287,573	250,000	37,573
Interest and fiscal charges . . . . .	26,302	26,527	23,061	3,466
Total expenditures . . . . .	<u>3,912,832</u>	<u>3,964,398</u>	<u>3,446,428</u>	<u>517,970</u>
Excess of revenues over expenditures . . . . .	<u>1,254,299</u>	<u>1,202,733</u>	<u>1,519,737</u>	<u>317,004</u>
<b>Other financing sources (uses):</b>				
Proceeds from sale of capital assets . . . . .	14,065	14,065	13,518	(547)
Transfers in . . . . .	2,521,379	2,521,379	2,423,314	(98,065)
Transfers out . . . . .	(4,897,292)	(4,489,771)	(4,293,789)	195,982
Other financing sources . . . . .	25,147	25,147	24,169	(978)
Total other financing sources (uses) . . . . .	<u>(2,336,701)</u>	<u>(1,929,180)</u>	<u>(1,832,788)</u>	<u>96,392</u>
Net change in fund balance . . . . .	(1,082,402)	(726,447)	(313,051)	413,396
<b>Fund balance at beginning of year . . . . .</b>	4,019,608	4,019,608	4,019,608	-
<b>Prior year encumbrances appropriated . . . . .</b>	163,394	163,394	163,394	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 3,100,600</u>	<u>\$ 3,456,555</u>	<u>\$ 3,869,951</u>	<u>\$ 413,396</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF ST. MARYS, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2003

	<b>Business-type Activities -</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and cash equivalents . . . . .	\$ 988,399	\$ 1,434,822	\$ 1,853,267
Investments . . . . .	-	-	273,310
Cash in segregated accounts. . . . .	-	-	-
Receivables (net of allowance for uncollectibles)			
Real and other taxes. . . . .	-	-	65,737
Accounts . . . . .	104,477	117,699	919,439
Special assessments. . . . .	711	867	-
Accrued interest. . . . .	772	195	2,793
Prepayments. . . . .	25,289	25,814	126,281
Materials and supplies inventory . . . . .	142,226	24,008	330,413
Unamortized bond issuance costs . . . . .	17,364	52,770	104,934
Noncurrent assets:			
Cash and cash equivalents. . . . .	964,051	389,008	4,385,825
Investment in joint venture . . . . .	-	-	1,470,342
Restricted assets:			
Deposits held by trustee. . . . .	146,073	300,977	533,219
Refundable deposits. . . . .	-	-	180,073
Capital assets:			
Land . . . . .	232,462	144,500	513,813
Depreciable capital assets, net . . . . .	4,350,972	3,827,919	8,400,121
Total capital assets . . . . .	<u>4,583,434</u>	<u>3,972,419</u>	<u>8,913,934</u>
Total assets. . . . .	<u>6,972,796</u>	<u>6,318,579</u>	<u>19,159,567</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable . . . . .	12,999	7,028	582,606
Contracts payable . . . . .	-	-	55,461
Accrued wages and benefits. . . . .	16,398	21,337	59,226
Due to other funds . . . . .	3,415	4,511	65,502
Due to other governments . . . . .	6,186	7,388	23,789
Accrued interest payable . . . . .	-	-	90,951
Payable from restricted assets:			
Current portion of revenue bonds . . . . .	80,000	220,000	-
Current portion of mortgage revenue bonds . . . . .	-	-	360,000
Accrued interest payable. . . . .	4,617	6,067	13,837
Refundable deposits . . . . .	-	-	180,073
Notes payable. . . . .	-	-	2,500,000
Claims payable . . . . .	-	-	-
Long-term liabilities:			
Compensated absences . . . . .	89,307	56,529	178,786
Revenue bonds payable. . . . .	770,000	1,098,640	-
Mortgage revenue bonds payable. . . . .	-	-	2,465,789
General obligation bonds payable . . . . .	-	-	1,727,918
Landfill closure/post closure liability. . . . .	-	-	-
Total liabilities . . . . .	<u>982,922</u>	<u>1,421,500</u>	<u>8,303,938</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt. . . . .	3,733,434	2,653,779	1,860,227
Restricted for operations . . . . .	428,029	291,411	3,361,091
Restricted for improvements and replacements. . . . .	720,993	408,253	1,132,470
Unrestricted. . . . .	1,107,418	1,543,636	4,501,841
Total net assets . . . . .	<u>\$ 5,989,874</u>	<u>\$ 4,897,079</u>	<u>\$ 10,855,629</u>

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

Net assets of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>Enterprise Funds</b>		<b>Governmental Activities - Internal Service Funds</b>	
<b>Refuse</b>	<b>Total</b>		
\$ 767,778	\$ 5,044,266	\$ 282,600	
-	273,310	-	
-	-	4,058	
-	65,737	-	
69,582	1,211,197	51	
-	1,578	-	
-	3,760	17	
7,773	185,157	-	
3,508	500,155	20,840	
-	175,068	-	
-	5,738,884	-	
-	1,470,342	-	
-	980,269	-	
-	180,073	-	
303,695	1,194,470	-	
1,924,652	18,503,664	57,227	
2,228,347	19,698,134	57,227	
3,076,988	35,527,930	364,793	
38,500	641,133	10,180	
-	55,461	-	
11,745	108,706	2,196	
-	73,428	-	
4,136	41,499	775	
8,360	99,311	-	
-	300,000	-	
-	360,000	-	
-	24,521	-	
-	180,073	-	
1,082,000	3,582,000	-	
-	-	49,046	
34,082	358,704	6,652	
-	1,868,640	-	
-	2,465,789	-	
-	1,727,918	-	
3,922,845	3,922,845	-	
5,101,668	15,810,028	68,849	
1,146,347	9,393,787	57,227	
-	4,080,531	-	
-	2,261,716	-	
(3,171,027)	3,981,868	238,717	
\$ (2,024,680)	19,717,902	\$ 295,944	
	84,207		
	\$ 19,802,109		

**CITY OF ST. MARYS, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<b>Business-type Activities -</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>
<b>Operating revenues:</b>			
Charges for services . . . . .	\$ 1,210,417	\$ 1,342,598	\$ 9,858,157
Tap-in fees. . . . .	2,840	8,090	-
Rental income . . . . .	1,056	5,476	11,055
Other. . . . .	31,745	7,235	95,697
<b>Total operating revenues . . . . .</b>	<b>1,246,058</b>	<b>1,363,399</b>	<b>9,964,909</b>
<b>Operating expenses:</b>			
Personal services . . . . .	586,103	580,773	1,707,351
Contractual services. . . . .	100,837	104,769	738,440
Materials and supplies . . . . .	75,442	23,152	7,100,653
Utilities expense. . . . .	46,266	64,907	18,628
Claims expense . . . . .	-	-	-
Depreciation . . . . .	215,585	190,878	577,500
Other . . . . .	99	37	43,851
<b>Total operating expenses. . . . .</b>	<b>1,024,332</b>	<b>964,516</b>	<b>10,186,423</b>
<b>Operating income (loss) . . . . .</b>	<b>221,726</b>	<b>398,883</b>	<b>(221,514)</b>
<b>Nonoperating revenues (expenses):</b>			
Interest and fiscal charges . . . . .	(57,363)	(130,011)	(328,781)
Interest revenue. . . . .	2,580	12,835	35,445
Decrease in investment in joint venture . . . . .	-	-	(78,056)
Other local tax revenue. . . . .	-	-	20,068
Excise tax expense . . . . .	-	-	(20,068)
<b>Total nonoperating revenues (expenses) . . . . .</b>	<b>(54,783)</b>	<b>(117,176)</b>	<b>(371,392)</b>
<b>Net income (loss) before transfers. . . . .</b>	<b>166,943</b>	<b>281,707</b>	<b>(592,906)</b>
Transfers in . . . . .	-	-	730,450
<b>Changes in net assets . . . . .</b>	<b>166,943</b>	<b>281,707</b>	<b>137,544</b>
<b>Net assets at beginning of year . . . . .</b>	<b>5,822,931</b>	<b>4,615,372</b>	<b>10,718,085</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 5,989,874</b>	<b>\$ 4,897,079</b>	<b>\$ 10,855,629</b>

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>		
\$ 601,512	\$ 13,012,684	\$ 985,311	
-	10,930	-	
268,347	285,934	-	
37,161	171,838	396	
<u>907,020</u>	<u>13,481,386</u>	<u>985,707</u>	
337,200	3,211,427	64,418	
931,012	1,875,058	94	
16,825	7,216,072	199,817	
9,201	139,002	322	
-	-	574,268	
117,626	1,101,589	6,454	
31	44,018	249	
<u>1,411,895</u>	<u>13,587,166</u>	<u>845,622</u>	
<u>(504,875)</u>	<u>(105,780)</u>	<u>140,085</u>	
(20,195)	(536,350)	-	
6,710	57,570	1,688	
-	(78,056)	-	
-	20,068	-	
-	(20,068)	-	
<u>(13,485)</u>	<u>(556,836)</u>	<u>1,688</u>	
(518,360)	(662,616)	141,773	
40,000	770,450	-	
(478,360)	107,834	141,773	
<u>(1,546,320)</u>		<u>154,171</u>	
<u>\$ (2,024,680)</u>		<u>\$ 295,944</u>	
	98,822		
	<u>\$ 206,656</u>		

**CITY OF ST. MARYS, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<b>Business-type Activities -</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Electric</b>
<b>Cash flows from operating activities:</b>			
Cash received from charges for services . . . . .	\$ 1,184,805	\$ 1,308,510	\$ 9,834,726
Cash received from tap-in fees. . . . .	2,840	8,090	-
Cash received from rental charges . . . . .	2,045	5,476	11,055
Cash received from other operations. . . . .	31,967	7,235	140,178
Cash payments for personal services . . . . .	(572,398)	(565,264)	(1,663,658)
Cash payments for contractual services . . . . .	(90,290)	(94,183)	(742,899)
Cash payments for materials and supplies . . . . .	(67,511)	(20,739)	(7,016,015)
Cash payments for utilities expense . . . . .	(46,266)	(64,907)	(18,628)
Cash payments for claims expense. . . . .	-	-	-
Cash payments for other expenses . . . . .	(99)	(37)	(79,293)
Net cash provided by (used in) operating activities. . . . .	<u>445,093</u>	<u>584,181</u>	<u>465,466</u>
<b>Cash flows from noncapital financing activities:</b>			
Cash received from transfers in. . . . .	-	-	730,450
Cash received from other local taxes. . . . .	-	-	20,068
Cash payments for excise tax expense . . . . .	-	-	(20,068)
Net cash provided by noncapital financing activities. . . . .	<u>-</u>	<u>-</u>	<u>730,450</u>
<b>Cash flows from capital and related financing activities:</b>			
Cash payments for the acquisition of capital assets . . . . .	(151,003)	(63,435)	(330,473)
Cash received from proceeds of notes. . . . .	-	-	2,500,000
Cash payments for principal retirement . . . . .	(73,333)	(192,500)	(2,981,530)
Cash payments for interest and fiscal charges. . . . .	(55,620)	(100,431)	(295,342)
Net cash used in capital and related financing activities . . . . .	<u>(279,956)</u>	<u>(356,366)</u>	<u>(1,107,345)</u>
<b>Cash flows from investing activities:</b>			
Cash received from interest earned . . . . .	2,699	12,821	35,935
Cash received from maturities of investments . . . . .	-	-	71,330
Cash payments for purchase of investments . . . . .	-	-	(82,710)
Net cash provided by investing activities. . . . .	<u>2,699</u>	<u>12,821</u>	<u>24,555</u>
Net increase (decrease) in cash and cash equivalents . . . . .	167,836	240,636	113,126
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>1,930,687</u>	<u>1,884,171</u>	<u>6,839,258</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u>\$ 2,098,523</u>	<u>\$ 2,124,807</u>	<u>\$ 6,952,384</u>

<b>Enterprise Funds</b>		<b>Governmental Activities - Internal Service Funds</b>	
<b>Refuse</b>	<b>Total</b>		
\$ 600,293	\$ 12,928,334	\$ 987,791	
-	10,930	-	
271,880	290,456	-	
35,262	214,642	345	
(325,521)	(3,126,841)	(62,580)	
(646,524)	(1,573,896)	(94)	
(19,582)	(7,123,847)	(204,575)	
(9,201)	(139,002)	(636)	
-	-	(664,805)	
(31)	(79,460)	(249)	
<hr/>	<hr/>	<hr/>	
(93,424)	1,401,316	55,197	
<hr/>	<hr/>	<hr/>	
40,000	770,450	-	
-	20,068	-	
-	(20,068)	-	
<hr/>	<hr/>	<hr/>	
40,000	770,450	-	
<hr/>	<hr/>	<hr/>	
(22,325)	(567,236)	-	
1,082,000	3,582,000	-	
(1,182,000)	(4,429,363)	-	
(26,521)	(477,914)	-	
<hr/>	<hr/>	<hr/>	
(148,846)	(1,892,513)	-	
<hr/>	<hr/>	<hr/>	
6,710	58,165	1,681	
-	71,330	-	
-	(82,710)	-	
<hr/>	<hr/>	<hr/>	
6,710	46,785	1,681	
<hr/>	<hr/>	<hr/>	
(195,560)	326,038	56,878	
<hr/>	<hr/>	<hr/>	
963,338	11,617,454	229,780	
<u>\$ 767,778</u>	<u>\$ 11,943,492</u>	<u>\$ 286,658</u>	

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**CITY OF ST. MARYS, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<b>Business-type Activities -</b>		
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>			
Operating income (loss) . . . . .	\$ 221,726	\$ 398,883	\$ (221,514)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation . . . . .	215,585	190,878	577,500
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable. . . . .	(24,444)	(34,140)	(23,416)
Decrease in special assessments receivable . . . . .	43	52	-
(Increase) decrease in materials and supplies inventory.	5,044	1,588	4,733
Decrease in prepayments . . . . .	624	602	3,253
Increase in accounts payable . . . . .	9,395	6,298	25,226
Increase (decrease) in contracts payable . . . . .	-	-	55,461
(Decrease) in retainage payable . . . . .	-	-	(1,316)
Increase in accrued wages and benefits. . . . .	8,175	9,221	24,837
Increase in compensated absences payable. . . . .	3,081	3,506	11,379
Increase in due to other governments. . . . .	2,449	2,782	4,783
Increase (decrease) in due to other funds . . . . .	3,415	4,511	(4,000)
Increase in refundable deposits liability. . . . .	-	-	8,540
Increase in landfill closure/post closure liability . . . .	-	-	-
(Decrease) in claims payable . . . . .	-	-	-
Net cash provided by (used in) operating activities . . . .	<u>\$ 445,093</u>	<u>\$ 584,181</u>	<u>\$ 465,466</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>
<u>Refuse</u>	<u>Total</u>	
\$ (504,875)	\$ (105,780)	\$ 140,085
117,626	1,101,589	6,454
415	(81,585)	2,429
-	95	-
1,921	13,286	(12,520)
92	4,571	-
17,697	58,616	7,448
(94,894)	(39,433)	-
-	(1,316)	-
5,441	47,674	1,199
4,655	22,621	283
1,583	11,597	356
-	3,926	-
-	8,540	-
356,915	356,915	
-	-	(90,537)
<u>\$ (93,424)</u>	<u>\$ 1,401,316</u>	<u>\$ 55,197</u>

**CITY OF ST. MARYS, OHIO**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2003**

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 83,119
Receivables:	
Income taxes . . . . .	<u>1,570,399</u>
Total assets . . . . .	<u>\$ 1,653,518</u>
<b>Liabilities:</b>	
Due to other governments. . . . .	\$ 1,570,399
Payroll withholdings . . . . .	26,568
Undistributed assets. . . . .	<u>56,551</u>
Total liabilities . . . . .	<u>\$ 1,653,518</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, 2003

#### 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 after November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

##### A. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The City's reporting entity has been defined according to GASB Statement No. 14, "The Financial Reporting Entity".

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 2003. The following organizations are described due to their relationship to the City:

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

***JOINT VENTURE WITH EQUITY INTEREST***

Ohio Municipal Electric Generation Agency Joint Venture

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

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

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 participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2003 was \$1,504,288 (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 \$1,470,342 at December 31, 2003. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the City's Auditor.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2003 are:

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

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

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2004	67,944	84,417	152,361
2005	70,799	81,529	152,328
2006	73,844	78,520	152,364
2007	76,889	75,567	152,456
2008-2020	1,438,442	542,526	1,980,968
Total Gross Liability	1,727,918	862,559	2,590,477
Less: Amounts Held in Reserve	(223,630)		
Net Obligation	<u>1,504,288</u>		

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

***INSURANCE PURCHASING POOL***

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

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

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

***Government-Wide Financial Statements*** - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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

**C. Fund Accounting**

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

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

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

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

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

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

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

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

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

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

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

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

*Fiduciary Funds* - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds.

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

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

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

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

**E. Basis of Accounting**

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

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (see Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**F. Budgetary Process**

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

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

***Estimated Resources*** - The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include the actual unencumbered fund balances from the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines that revenue to be collected will be greater than or less than prior estimates and the County Budget Commission find the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the final amended official certificate of estimated resources issued during 2003.

***Appropriations*** - A temporary appropriations ordinance to control the level of expenditures for all funds may be passed on or about January 1 of each year, for the period January 1 to March 31. An annual appropriations ordinance must be passed by April 1 of each year, for the period January 1 to December 31. Appropriations may not exceed estimated resources as established in the amended official certificate of estimated resources. The allocation of appropriations among departments and objects within a fund may be modified during the year with City Council approval. Several appropriations resolutions were legally enacted by the City Council during the year. The budget figures which appear in the statements of budgetary comparisons represent the appropriated budget amounts and all supplemental appropriations.

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

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

**G. Cash and Investments**

To improve cash management, cash received other than in segregated accounts or with fiscal agent by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

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

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

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

Interest earnings are allocated to City funds according to state statutes, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2003 was \$109,389, which includes \$25,127 assigned from other City funds.

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

**H. Loans Receivable**

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

**I. Inventories of Materials and Supplies**

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

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

**J. Capital Assets**

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

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

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

**K. Compensated Absences**

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

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

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

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

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**M. Prepayments**

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

**N. Interfund Balances**

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

**O. Interfund Activity**

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

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

**P. Fund Balance Reserves**

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

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

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

**Q. Restricted Assets**

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

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

**R. Unamortized Bond Issuance Costs**

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

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

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

**T. Estimates**

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

**U. Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. During 2003 the City had no contributions of capital.

**V. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

**W. Operating Revenues and Expenses**

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

**X. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balance/Retained Earnings**

Fund balance and retained earnings at December 31, 2003 includes the following individual fund deficits:

Major Governmental Fund

Recreational Facility	\$ 957,549
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Major Enterprise Fund

Refuse	2,024,680
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Nonmajor Governmental Funds

Police Pension	23,852
Fire Pension	28,278
Special Assessment Improvement	83,299

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

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

Monies held by the City are classified by state statute into three categories:

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

Inactive deposits are public deposits that Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

Interim deposits are deposits in interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

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

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

*Cash in Segregated Accounts:* At year-end, the City had \$149,141 deposited with a financial institution for monies related to the High Street Bridge Construction Project, a joint project with the State of Ohio and for monies related to the Self-Insurance fund. These amounts are included in the City's depository balance below.

*Deposits:* At year-end, the carrying amount of the City's deposits was \$17,370,367 and the bank balance was \$17,475,626. Of the bank balance:

1. \$400,000 was covered by federal depository insurance; and
2. \$17,075,626 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

	Category 1	Fair Value
Special assessment bonds	<u>\$ 273,310</u>	\$ 273,310
	<u>\$ 273,310</u>	
U.S. Government mutual fund		500,225
Investment in STAR Ohio		<u>5,106,002</u>
Total Investments		<u>\$5,879,537</u>

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 22,976,594	\$ 273,310
Investments of the cash management pool:		
U.S. Government mutual fund	(500,225)	500,225
Investment in STAR Ohio	<u>(5,106,002)</u>	<u>5,106,002</u>
GASB Statement No. 3	<u>\$ 17,370,367</u>	<u>\$5,879,537</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund transfers for the year ended December 31, 2003, consisted of the following, as reported on the fund statements:

Transfers to nonmajor governmental funds from:	
General fund	\$ 881,115
Other nonmajor governmental funds	<u>1,726</u>
Transfers to nonmajor governmental funds	<u>882,841</u>
Transfers to electric fund from:	
General fund	730,450
Transfers to refuse fund from:	
General fund	40,000

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

All transfers were legal and in compliance with Ohio Revised Code. The most significant transfer that occurred during the year was a \$730,450 transfer from the general fund to the Electric enterprise fund. This transfer was related to the kilowatt hour tax that is collected in the general fund and pertains to electric operations.

- B.** Due from/to other funds consisted of the following at December 31, 2003, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Electric Fund	\$ 63,051
Voted Income Tax fund	Water Fund	3,415
Voted Income Tax fund	Sewer Fund	4,511
Voted Income Tax fund	Electric Fund	2,451

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

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property tax revenues received in 2003 represent the collection of 2002 taxes. For 2003, real property taxes were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. These taxes will be collected in and are intended to finance 2004 operations. Assessed values for real property taxes are established by state statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1999. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes were levied after October 1, 2002, on the assessed values as of December 31, 2000, the lien date. Public utility real property is assessed at 35 percent of true value. Public utility tangible personal property currently is assessed at 88% of true value for taxable transmission and distribution property and 25% of true value for all other taxable property. Public utility property taxes are payable on the same dates as real property taxes described previously.

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

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of St. Marys. The County Auditor periodically remits to the City its portion of the taxes collected.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2003. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2003 operations.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

The full tax rate for all City operations for the year ended December 31, 2003, was \$5.32 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2002 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property	
Agricultural/Residential	\$ 75,018,610
Commercial/Industrial	25,094,710
Public Utility Property	
Real	5,290
Personal	1,438,960
Tangible Personal Property	<u>35,382,380</u>
Total Assessed Value	<u>\$136,939,950</u>

**NOTE 7 - LOCAL INCOME TAX**

The City levies and collects an income tax of 1.5 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

The City, by ordinance, allocates the first 1 percent of the income tax revenues to the general fund (.72); Street Maintenance and Repair special revenue fund (.18); and Capital Improvement capital projects fund (.10). The remaining .5 percent is allocated to the Voted Tax Capital Improvement capital projects fund. Income tax revenue credited to the general fund totaled \$2,458,226 in fiscal 2003, \$1,183,782 for the Voted Income Tax Fund on the fund financial statements.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the basic financial statements. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2003, as well as intended to finance fiscal 2003 operations.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 8 - RECEIVABLES - (Continued)**

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

**Governmental Activities:**

Income taxes	\$ 704,849
Real and other taxes	403,206
Accounts	35,555
Loans	1,388,836
Special assessments	258,290
Due from other governments	344,573

**Business-type Activities:**

Real and other taxes	65,737
Accounts	1,211,197

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

**NOTE 9 - LOANS RECEIVABLE**

Loans receivable represent low interest loans for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant program. The loans have an annual interest rate of 3-9.25 percent and are repaid over periods ranging from five to thirty years. A summary of the changes in loans receivable during 2003 follows:

	<u>Balance</u> <u>12/31/02</u>	<u>New</u> <u>Loans</u>	<u>Repayments</u>	<u>Balance</u> <u>12/31/03</u>
<b><u>Special Revenue Fund</u></b>				
<b>CDBG</b>				
Individual Loans	\$ 57,415	\$ -	\$ (27,800)	\$ 29,615
Business Loans	<u>1,280,939</u>	<u>202,646</u>	<u>(124,364)</u>	<u>1,359,221</u>
<b>Total</b>	<b><u>\$ 1,338,354</u></b>	<b><u>\$ 202,646</u></b>	<b><u>\$(152,164)</u></b>	<b><u>\$ 1,388,836</u></b>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 10 - CAPITAL ASSETS**

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

	Balance 12/31/02	Additions	Disposals	Balance 12/31/03
<b><u>Governmental Activities:</u></b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,851,561	\$ -	\$ -	\$ 1,851,561
Construction in progress	<u>-</u>	<u>1,209,056</u>	<u>-</u>	<u>1,209,056</u>
Total capital assets, not being depreciated	<u>1,851,561</u>	<u>1,209,056</u>	<u>-</u>	<u>3,060,617</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	793,005	152,958	-	945,963
Buildings and improvements	1,283,855	9,599	-	1,293,454
Machinery and equipment	517,847	116,520	(23,782)	610,585
Vehicles	1,986,658	165,425	(41,054)	2,111,029
Infrastructure	<u>12,833,705</u>	<u>1,183,219</u>	<u>-</u>	<u>14,016,924</u>
Total capital assets, being depreciated	<u>17,415,070</u>	<u>1,627,721</u>	<u>(64,836)</u>	<u>18,977,955</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(368,843)	(26,697)	-	(395,540)
Buildings and improvements	(659,821)	(33,543)	-	(693,364)
Machinery and equipment	(256,418)	(77,849)	23,782	(310,485)
Vehicles	(1,443,245)	(168,654)	41,054	(1,570,845)
Infrastructure	<u>(3,549,320)</u>	<u>(603,013)</u>	<u>-</u>	<u>(4,152,333)</u>
Total accumulated depreciation	<u>(6,277,647)</u>	<u>(909,756)</u>	<u>64,836</u>	<u>(7,122,567)</u>
Total capital assets, being depreciated, net	<u>11,137,423</u>	<u>717,965</u>	<u>-</u>	<u>11,855,388</u>
Governmental activities capital assets, net	<u>\$12,988,984</u>	<u>\$1,927,021</u>	<u>\$ -</u>	<u>\$14,916,005</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

<b><u>Business-type Activities:</u></b>	<u>Balance</u> <u>12/31/02</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/03</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,194,470	\$ -	\$ -	\$ 1,194,470
Total capital assets, not being depreciated	<u>1,194,470</u>	<u>-</u>	<u>-</u>	<u>1,194,470</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	4,969,251	-	-	4,969,251
Buildings and improvements	4,947,764	169,695	-	5,117,459
Machinery and equipment	9,823,803	100,875	-	9,924,678
Vehicles	2,089,354	23,742	-	2,113,096
Infrastructure	<u>15,401,455</u>	<u>272,924</u>	<u>-</u>	<u>15,674,379</u>
Total capital assets, being depreciated	<u>37,231,627</u>	<u>567,236</u>	<u>-</u>	<u>37,798,863</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,500,815)	(239,080)	-	(1,739,895)
Buildings and improvements	(3,106,849)	(124,068)	-	(3,230,917)
Machinery and equipment	(7,168,441)	(128,989)	-	(7,297,430)
Vehicles	(1,353,142)	(145,143)	-	(1,498,285)
Infrastructure	<u>(5,064,363)</u>	<u>(464,309)</u>	<u>-</u>	<u>(5,528,672)</u>
Total accumulated depreciation	<u>(18,193,610)</u>	<u>(1,101,589)</u>	<u>-</u>	<u>(19,295,199)</u>
Total capital assets, being depreciated, net	<u>19,038,017</u>	<u>(534,353)</u>	<u>-</u>	<u>18,503,664</u>
Business-type activities capital assets, net	<u>\$ 20,232,487</u>	<u>\$ (534,353)</u>	<u>\$ -</u>	<u>\$ 19,698,134</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

**Governmental activities:**

General government	\$ 74,506
Security of persons and property	60,559
Transportation	720,350
Community environment	1,338
Leisure time activity	46,549
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>6,454</u>
Total depreciation expense - governmental activities	<u>\$ 909,756</u>

**NOTE 11 - COMPENSATED ABSENCES**

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

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

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

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 12 - LONG-TERM OBLIGATIONS**

The City's long-term obligations activity for the year ended December 31, 2002, was as follows:

			Audited				Amounts
	Interest		Balance			Balance	Due in
<u>Series</u>	<u>Rate</u>	<u>12/31/2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2003</u>	<u>One Year</u>	
<b>Governmental Activities:</b>							
<u>Special Assessment Bonds</u>							
Sanitary Sewer Improvement	1993 5.00%	\$ 1,130	\$ -	\$ (1,130)	\$ -	\$ -	
Street Improvement	1999 4.50%	18,400	-	(9,200)	9,200	9,200	
Street Improvement	2000 5.00%	63,000	-	(21,000)	42,000	21,000	
Street Improvement	2001 4.50%	82,400	-	(20,600)	61,800	20,600	
Street Improvement	2002 4.50%	97,000	-	(19,400)	77,600	19,400	
Street Improvement	2003A 4.50%	-	48,480	-	48,480	9,690	
Street Improvement	2003B 4.50%	-	34,230	-	34,230	3,420	
Total Special Assessment Bonds		<u>261,930</u>	<u>82,710</u>	<u>(71,330)</u>	<u>273,310</u>	<u>83,310</u>	
<u>Other Long-Term Obligations</u>							
Compensated Absences Payable		<u>237,546</u>	<u>-</u>	<u>(2,381)</u>	<u>235,165</u>	<u>155,448</u>	
Total governmental activities, long-term obligations		<u>\$ 499,476</u>	<u>\$ 82,710</u>	<u>\$ (73,711)</u>	<u>\$ 508,475</u>	<u>\$ 238,758</u>	

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

	Interest Rate	Audited Balance 12/31/2002	Additions	Reductions	Balance 12/31/2003	Amounts Due in One Year
<b>Business-type Activities:</b>						
<u>Revenue Bonds</u>						
Waterworks	4.40-6.65%	\$ 923,333	\$ -	\$ (73,333)	\$ 850,000	\$ 80,000
Sanitary Sewer System Refunding	4.75-5.15%	1,662,500	-	(192,500)	1,470,000	220,000
Total Revenue Bonds		<u>2,585,833</u>	<u>-</u>	<u>(265,833)</u>	<u>2,320,000</u>	<u>300,000</u>
<u>Mortgage Revenue Bonds</u>						
1990 Electric Mortgage						
Revenue Refunding bonds	4.75-5.30%	2,512,500	-	(241,250)	2,271,250	280,000
1991 Electric Mortgage						
Revenue Bonds	4.40-6.65%	868,750	-	(75,000)	793,750	80,000
Total Mortgage Revenue Bonds		<u>3,381,250</u>	<u>-</u>	<u>(316,250)</u>	<u>3,065,000</u>	<u>360,000</u>
<u>General Obligation Bonds</u>						
Electric-OMEGA JV2	3.81%	1,793,198	-	(65,280)	1,727,918	67,944
<u>Other Long-Term Obligations</u>						
Compensated Absences Payable		336,083	22,621	-	358,704	227,550
Landfill Closure/Postclosure Costs		3,565,930	356,915	-	3,922,845	-
Total Other Long-Term Obligations		<u>3,902,013</u>	<u>379,536</u>	<u>-</u>	<u>4,281,549</u>	<u>227,550</u>
Total business-type activities, long-term		<u>\$11,662,294</u>	<u>\$ 379,536</u>	<u>\$ (647,363)</u>	\$ 11,394,467	<u>\$ 955,494</u>
Less: Unamortized Loss on Refunding					<u>(390,571)</u>	
Total on statement of net assets					<u>\$ 11,003,896</u>	

General Obligation Note

The general obligation note is supported by the full faith and credit of the City. The City issued a \$1,000,000 general obligation note during 2003. The proceeds will be used finance the construction of a new swimming pool.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

*Special Assessment Bonds with Governmental Commitment*

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

*Compensated Absences Payable*

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

*Revenue Bonds*

The revenue bonds are liabilities of the Water and Sewer enterprise funds and pledge their respective revenues for repayment. The bonds also pledge the full faith and credit and taxing authority of the City in the event the enterprise funds revenues are not sufficient to meet the principal and interest requirements. The 1991 Sewer Revenue Refunding Bonds are reported in the Statement of Net Assets net of the unamortized loss on advanced refunding of \$151,360.

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

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

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

<u>Redemption Dates</u>	<u>Redemption Prices</u>
December 1, 2001, through November 30, 2002	102%
December 1, 2002, through November 30, 2003	101
December 1, 2003, and thereafter	100

Mortgage Revenue Bonds

The mortgage revenue bonds are special obligations of the City secured by a mortgage upon all assets of the electric system. These bonds are payable solely from the gross revenues of the electric system after provision for reasonable operating and maintenance expenses. The bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for services to customers be in sufficient amounts to satisfy the obligations under the indenture agreements. The Electric Mortgage Revenue Bonds are reported on the Statement of Net Assets net of the unamortized loss on advanced refunding of \$239,211.

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

<u>Year</u>	<u>Amount</u>
2005	\$ 85,000
2006	90,000
2007	95,000
2008	100,000
2009	110,000
2010	115,000

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

<u>Redemption Dates</u>	<u>Redemption Prices</u>
December 1, 2001, through November 30, 2002	102%
December 1, 2002, through November 30, 2003	101
December 1, 2003, and thereafter	100

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

Defeased Debt

In 1991, the City advance refunded revenue and mortgage revenue bonds, in the amount of \$2,645,000 and \$3,540,000, respectively. The proceeds of the bonds and other assets were placed in an irrevocable trust for the payment of the bonds when due. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the City's financial statements. At December 31, 2003, revenue and mortgage revenue bonds, in the amount of \$1,690,000, and \$2,490,000, were outstanding.

Reconciliation of Business-type Obligations

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

Business-type activities

Total long-term obligations as stated above	\$ 11,394,467
Less: Unamortized loss on advance refunding - sewer	(151,360)
Less: Unamortized loss on advance refunding - electric	<u>(239,211)</u>
 Total long-term liabilities reported on the Statement of Net Assets	 <u>\$ 11,003,896</u>

Legal Debt Margin

The City's voted and unvoted legal debt margins were \$14,142,222 and \$7,295,224, respectively, at December 31, 2003.

Principal and interest requirements to retire the governmental activities long-term obligations outstanding at December 31, 2003, were as follows:

Year	Special Assessment Bonds		
	Principal	Interest	Total
2004	\$ 83,310	\$ 12,510	\$ 95,820
2005	74,110	8,655	82,765
2006	53,120	5,216	58,336
2007	32,520	2,825	35,345
2008	13,120	1,361	14,481
2009 - 2013	<u>17,130</u>	<u>2,314</u>	<u>19,444</u>
 Total	 <u>\$273,310</u>	 <u>\$32,881</u>	 <u>\$ 306,191</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

Principal and interest requirements to retire the business-type activities long-term obligations outstanding at December 31, 2002, were as follows:

Year	Revenue Bonds			Mortgage Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 300,000	\$ 130,345	\$ 430,345	\$ 360,000	\$ 168,810	\$ 528,810
2005	315,000	114,775	429,775	380,000	150,390	530,390
2006	345,000	98,083	443,083	395,000	130,578	525,578
2007	365,000	78,815	443,815	420,000	109,648	529,648
2008	380,000	58,442	438,442	440,000	86,105	526,105
2009-2011	615,000	62,825	677,825	1,070,000	104,788	1,174,788
Total	<u>\$ 2,320,000</u>	<u>\$ 543,285</u>	<u>\$ 2,863,285</u>	<u>\$ 3,065,000</u>	<u>\$ 750,319</u>	<u>\$3,815,319</u>

**NOTE 13 - SHORT-TERM OBLIGATIONS**

Short-term obligations activity for the year ended December 31, 2003, was as follows:

	Series	Interest Rate	Audited	Additions	Reductions	Balance	Amounts
			Balance 12/31/2002			12/31/2003	Due in One Year
<b>Governmental Activities:</b>							
<u>Bond Anticipation Notes</u>							
General Purpose	2003	1.50%	\$ 1,250,000	\$ 1,000,000	\$ (1,250,000)	\$ 1,000,000	\$ 1,000,000
Street Program	2002	2.52%	137,000	-	(137,000)	-	-
Street Program	2003	3.50%	-	143,600	(143,600)	-	-
Street Program	2003	1.60%	-	78,000	-	78,000	78,000
West South Street Issue II Project	2003	1.79%	-	37,000	-	37,000	37,000
Total governmental activities, short-term obligations			<u>\$ 1,387,000</u>	<u>\$ 1,258,600</u>	<u>\$ (1,530,600)</u>	<u>\$ 1,115,000</u>	<u>\$ 1,115,000</u>

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 13 - SHORT-TERM OBLIGATIONS - (Continued)**

	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/03</u>
<b>Business-Type Activities:</b>					
<u>Enterprise Funds</u>					
Land Improvement Bond					
Anticipation Note	1.70%	\$ 2,600,000	\$ -	\$ (2,600,000)	\$ -
Land Improvement Bond					
Anticipation Note	1.20%	-	2,500,000	-	2,500,000
Sanitary Improvement Bond					
Anticipation Note	2.25%	1,182,000	-	(1,182,000)	-
Sanitary Improvement Bond					
Anticipation Note	1.40%	-	1,082,000	-	1,082,000
 Total notes payable		<u>\$ 3,782,000</u>	<u>\$ 3,582,000</u>	<u>\$ (3,782,000)</u>	<u>\$ 3,582,000</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 notes are bond anticipation notes and are supported by the full faith and credit of the City. The liability for all notes is presented in the fund which received the proceeds and have a maturity of one year.

**NOTE 14 - RISK MANAGEMENT**

**A. Property and Liability**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has entered into contracts with various insurance agencies for the following coverage and deductibles:

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

There have been no significant reductions in insurance coverage from 2002, 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, 2003

**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. All funds of the City participate in the self-insurance program and make payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior- and current-year claims. For 2003, the City utilized a third party administrator, Anthem Benefit Administrators, to process all claims. The monthly premiums are \$231.80 for single coverage and \$544.67 for family coverage; the employee's share is \$40.92 and \$118.16, respectively. All premiums paid to the Self-Insurance internal service fund were deposited with the claims servicing pool. The cost to the City for the third party administrator is \$29.55 per employee per month.

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

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2003, is estimated by the third party administrator at \$49,046. The changes in the claims liability for 2003 and 2002 were as follows:

<u>Year</u>	<u>Beginning Balance</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2003	\$ 139,223	\$ 574,628	\$(664,805)	\$ 49,046
2002	150,629	699,215	(710,621)	139,223

**C. Workers' Compensation**

For 2003, 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, 2003**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2003. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2003. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$488,269, \$458,665, and \$449,141, respectively; 98.15% has been contributed for 2003 and 100% for 2002 and 2001. \$9,027 represents the unpaid contribution for 2003, and is recorded as a liability within the respective funds.

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

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2003, 2002, and 2001 were \$265,185, \$254,394, and \$254,329, respectively; 74.17% has been contributed for 2003 and 100% for the years 2002 and 2001. \$68,494, representing the unpaid contributions for 2003, is recorded as a liability within the respective funds.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2003 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2003 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$180,173.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

As of December 31, 2002 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively, at December 31, 2002 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2002 (the latest information available) was 364,881.

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

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

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2003, Comprehensive Annual Financial Report.

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

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2002 and 2003, respectively. 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 number of participants eligible to receive health care benefits as of December 31, 2002 (the latest information available), is 13,527 for police officers and 10,396 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$50,548 and \$44,529, respectively. OP&F's total health care expense for the year ending December 31, 2002 (the latest information available), was \$141,028 million, which was net of member contributions of \$12.623 million.

**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 are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses 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).

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

<b>Net Change in Fund Balance</b>	
	<u>General</u>
Budget Basis	\$ (313,051)
Net adjustment for revenue accruals	(376,088)
Net adjustment for expenditure accruals	147,481
Net adjustment for other financing sources and uses	194,741
Adjustment for encumbrances	<u>123,247</u>
GAAP basis	<u>\$ (223,670)</u>

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

Fund assets, whose use are restricted under the bond indentures to replacement and improvements, operations, refundable electric customer deposits and debt service requirements, are presented as restricted assets on the combined balance sheet. These assets are further segregated between those held by the City and those held by the trustees. The City has permissive tax monies on deposit with Auglaize County in the amounts of \$68,273. Restricted assets relating to each of the bond issues were as follows at December 31, 2003.

	<u>Restricted Net Assets and Restricted Assets (Cash)</u>					<u>Totals</u>
	<u>Water Revenue</u>	<u>Sewer Revenue Refunding</u>	<u>Electric Mortgage Revenue Refunding</u>	<u>Electric Mortgage Revenue Fund</u>	<u>Electric Mortgage Revenue</u>	
Restricted net assets held by the City for:						
Replacements and improvements	\$ 720,993	\$ 408,253	\$ 1,132,470	\$ -	\$ -	\$ 2,261,716
Operations	428,029	291,411	3,361,091	-	-	4,080,531
Restricted assets (cash):						
Refundable deposits	-	-		180,073	-	180,073
Bond current debt service	11,454	24,790	35,523	-	11,156	82,923
Bond future debt service	134,619	276,187	364,606	-	121,934	897,346

**CITY OF ST. MARYS, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

The City is in the process of closing the landfill. The landfill closure and postclosure liability of \$3,922,845 at December 31, 2003, 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 2003. 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.

**NOTE 20 - CONTRACTUAL COMMITMENTS**

As of December 31, 2003, the City had the following contractual commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Contract Balance</u>
Celina Landfill	\$ 190,000	\$ 177,238	\$ 12,762
Clemans, Nelson & Assoc	33,500	17,243	16,257
Dresser Rand Company	196,682	181,427	15,255
Hull and Associates	119,500	95,460	24,040
Kohli & Kaliher Associate	35,000	18,183	16,817
Orbital Technology Solution	24,000	9,500	14,500
Oxford Mining Co., Inc	700,000	665,981	34,019
PAB Construction	32,646	-	32,646
Test America, Inc	27,500	14,364	13,136
Vorys, Sater, Seymour and	<u>212,000</u>	<u>184,037</u>	<u>27,963</u>
Total Contractual Commitments	<u>\$ 1,570,828</u>	<u>\$ 1,363,433</u>	<u>\$ 207,395</u>

**CITY OF ST. MARYS, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**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, 2003.

**B. Litigation**

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

# TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard  
Suite B  
Worthington, Ohio 43085

Telephone 614.846.1899  
Facsimile 614.846.2799

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

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys as of and for the year ended December 31, 2003, and have issued our report thereon dated June 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the City of St. Marys in a separate letter dated June 17, 2004.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of St. Marys internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the City of St. Marys in a separate letter dated June 17, 2004.

Mayor and Members of Council  
City of St. Marys

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

Trimble, Julian & Grube, Inc.  
June 17, 2004



**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CITY OF ST. MARYS**

**AUGLAIZE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 17, 2004**