CITY OF ST. MARYS
AUGLAIZE COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2011

Dave Yost • Auditor of State

CITY OF ST. MARYS
AUGLAIZE COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

City of St. Marys
Auglaize County
101 E. Spring Street
St. Marys, Ohio 45885

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys, Auglaize County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys, Auglaize County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows**,** 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.

As described in Note 3, during the year ended December 31, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitiions.* Also as stated in Note 3, the City restated the December 31, 2011 General Fund budgetary balance.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Dave Yost

Dave Yost
Auditor of State

September 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

The management's discussion and analysis of the City of St. Marys (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. 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 2011 are as follows:

- The total net assets of the City decreased $3,638,916. Net assets of governmental activities decreased $722,288 or 2.15% from 2010 and net assets of business-type activities decreased $2,916,628 or 10.25% from 2010.

- General revenues accounted for $5,616,580 or 80.56% of total governmental activities revenue. Program specific revenues accounted for $1,355,643 or 19.44% of total governmental activities revenue.

- The City had $6,878,760 in expenses related to governmental activities; $1,355,643 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of $5,523,117 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of $5,616,580.

- The City's major governmental funds include the general fund and voted income tax fund. The general fund had revenues of $4,446,119 in 2011. The expenditures and other financing uses of the general fund totaled $4,804,340 in 2011. The net decrease in fund balance for the general fund was $364,971 or 8.30%.

- The voted income tax fund had revenues of $1,246,625 in 2011. The expenditures of the voted income tax fund totaled $1,048,515 in 2011. The net increase in fund balance for the voted income tax fund was $198,110 or 7.04%.

- Net assets for the business-type activities, which are made up of the Water, Sewer, Electric and Refuse enterprise funds, decreased in 2011 by $2,916,628. This decrease in net assets was due primarily to stranded costs incurred in the electric fund in relation to an abandoned project for which the City owes AMP-Ohio $2,664,281. The cost associated with the City's involvement in this project is recorded as a current year expense.

- In the general fund, the actual revenues came in $506,207 higher than they were in the final budget and actual expenditures and other financing uses were $1,167,182 less than the amount in the final budget. The variance in the expenditures and other financing uses is the result of the City's conservative budgeting. Budgeted revenues did not change from the original to the final budget. Budgeted expenditures and other financing uses increased $35,000 from the original to the final budget due to an increase in anticipated expenditures related to the security of persons and property.

Using this Annual Financial Report

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

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 9.

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 only major governmental funds are the general fund and the voted income tax fund. 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 - 26 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 - 30 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 31 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 33 - 69 of this report.

Government-Wide Financial Analysis

The statement of net assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets at December 31, 2011 and December 31, 2010.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	$14,675,500	$15,335,184	$16,409,854	$16,431,730	$31,085,354	$31,766,914
Capital assets, net	19,353,439	19,508,355	29,045,464	29,294,034	48,398,903	48,802,389
Total assets	34,028,939	34,843,539	45,455,318	45,725,764	79,484,257	80,569,303
Liabilities:						
Other liabilities	665,709	773,375	2,210,155	1,619,447	2,875,864	2,392,822
Long-term liabilities	518,836	503,482	17,716,419	15,660,945	18,235,255	16,164,427
Total liabilities	1,184,545	1,276,857	19,926,574	17,280,392	21,111,119	18,557,249
Net Assets:						
Invested in capital assets, net of related debt	19,258,439	19,408,355	17,380,939	17,114,154	36,639,378	36,522,509
Restricted	6,923,890	6,883,440			6,923,890	6,883,440
Unrestricted	6,662,065	7,274,887	8,147,805	11,331,218	14,809,870	18,606,105
Total net assets	$32,844,394	$33,566,682	$25,528,744	$28,445,372	$58,373,138	$62,012,054

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by $58,373,138. At year end, net assets were $32,844,394 and $25,528,744 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 60.89% of total assets. Capital assets include land, easements, land improvements, buildings and improvements, equipment and furniture, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2011, were $19,258,439 and $17,380,939 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, 2011, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, $6,923,890 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 $6,662,065 may be used to meet the government's ongoing obligations to citizens and creditors.

The increase in total liabilities in the business-type activities is due to an increase in payables related to ongoing construction projects as well as a long-term obligation to AMP-Ohio for the City's portion of stranded project costs.

The table below shows the changes in net assets for 2011 and 2010.

Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Revenues:						
Program revenues:						
Charges for services and sales	$ 808,723	$704,554	$19,461,237	$19,591,257	$20,269,960	$20,295,811
Operating grants and contributions	375,910	384,057			375,910	384,057
Capital grants and contributions	171,010	441,069			171,010	441,069
Total program revenues	1,355,643	1,529,680	19,461,237	19,591,257	20,816,880	21,120,937
General revenues:						
Property taxes	1,181,448	1,209,860			1,181,448	1,209,860
Income taxes	3,613,613	4,031,781			3,613,613	4,031,781
Unrestricted grants	587,276	862,592	5,105	5,695	592,381	868,287
Interest	72,902	84,483	31,676	38,027	104,578	122,510
Miscellaneous	161,341	211,530	283,812	413,339	445,153	624,869
Total general revenues	5,616,580	6,400,246	320,593	457,061	5,937,173	6,857,307
Total revenues	6,972,223	7,929,926	19,781,830	20,048,318	26,754,053	27,978,244
Expenses:						
General government	949,828	1,091,310			949,828	1,091,310
Security of persons and property	3,355,764	3,285,227			3,355,764	3,285,227
Public health and welfare	68,647	27,952			68,647	27,952
Transportation	1,960,452	1,889,748			1,960,452	1,889,748
Community environment	134,817	240,568			134,817	240,568
Leisure time activity	394,902	338,650			394,902	338,650
Interest and fiscal charges	14,350	19,012			14,350	19,012
Water			1,454,695	1,342,135	1,454,695	1,342,135
Sewer			2,359,637	1,914,515	2,359,637	1,914,515
Electric			18,990,040	16,219,952	18,990,040	16,219,952
Refuse			709,837	705,726	709,837	705,726
Total expenses	6,878,760	6,892,467	23,514,209	20,182,328	30,392,969	27,074,795
Increase (decrease) in net assets before transfers	93,463	1,037,459	(3,732,379)	(134,010)	(3,638,916)	903,449
Transfers	(815,751)	(832,390)	815,751	832,390		
Change in net assets	(722,288)	205,069	(2,916,628)	698,380	(3,638,916)	903,449
Net assets at beginning of year	33,566,682	33,361,613	28,445,372	27,746,992	62,012,054	61,108,605
Net assets at end of year	$32,844,394	$33,566,682	$25,528,744	$28,445,372	$58,373,138	$62,012,054

Governmental Activities

Governmental activities net assets decreased $722,288 in 2011. This decrease is primarily the result of decreases in income tax revenue and intergovernmental general revenue resulting from difficult local economic circumstances.

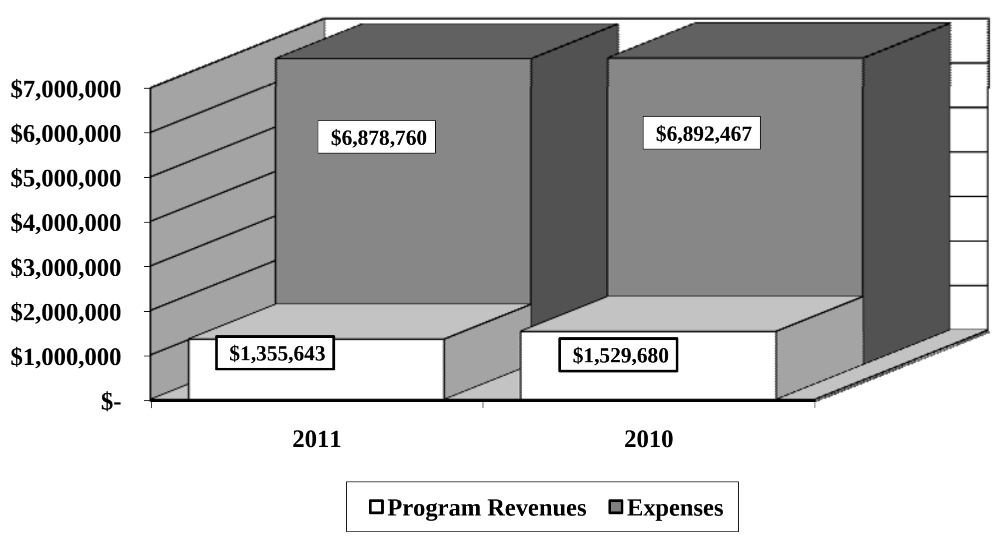
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for $3,355,764 of the total expenses of the City. These expenses were partially funded by $429,200 in direct charges to users of the services. Transportation expenses totaled $1,960,452 and were partially funded by $110,474 in direct charges to users of the services, $350,623 in operating grants and contributions and $138,710 in capital grants and contributions.

The State and federal government contributed to the City a total of $375,910 in operating grants and contributions and $171,010 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, $350,623 subsidized transportation programs and $25,287 subsidized community environment. Of the total capital grants and contributions, $138,710 subsidized transportation programs and $32,300 subsidized general government.

General revenues totaled $5,616,580, and amounted to 80.56% of total governmental revenues. These revenues primarily consist of property and income tax revenue of $4,795,061. 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 $587,276.

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 for 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The graph below illustrates the City's dependence upon general revenues as program revenues are not sufficient to cover total governmental expenses.

Governmental Activities - Program Revenues vs. Total Expenses

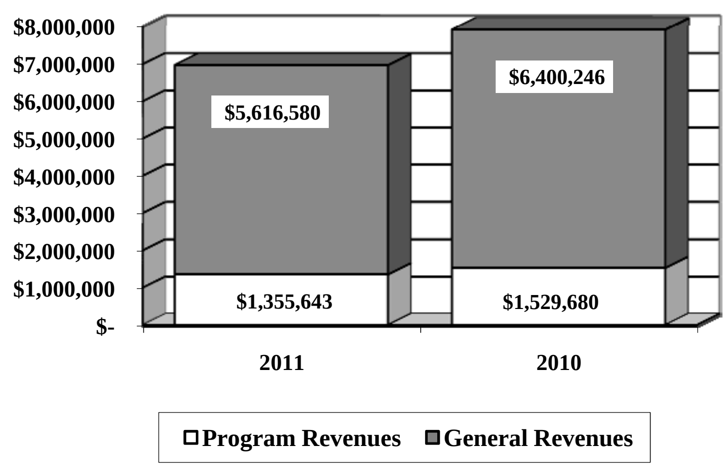


Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses:				
General government	$ 949,828	$ 777,165	$1,091,310	$ 797,470
Security of persons and property	3,355,764	2,926,564	3,285,227	2,958,988
Public health and welfare	68,647	59,101	27,952	25,532
Transportation	1,960,452	1,360,645	1,889,748	1,113,577
Community environment	134,817	106,541	240,568	225,002
Leisure time activity	394,902	278,751	338,650	223,206
Interest and fiscal charges	14,350	14,350	19,012	19,012
Total expenses	$6,878,760	$5,523,117	$6,892,467	$5,362,787

The dependence upon general revenues for governmental activities is apparent, with 80.29% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2011 and 2010:

Governmental Activities - General and Program Revenues

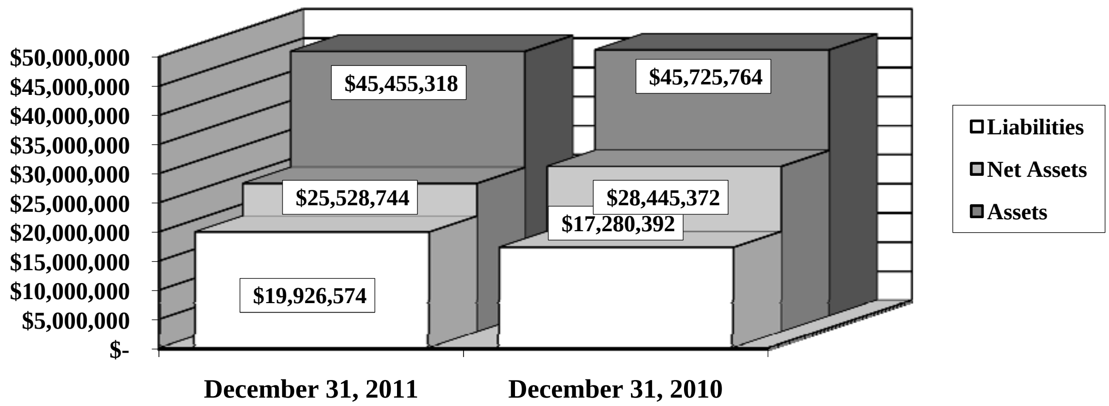


Business-type Activities

Business-type activities include the water, sewer, electric and refuse enterprise funds. These programs had program revenues of $19,461,237, general revenues of $320,593, transfers in of $815,751, and expenses of $23,514,209 for 2011.

The graph below illustrates the City's business-type assets, liabilities and net assets at December 31, 2011 and December 31, 2010.

Net Assets in Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

The City's governmental funds (as presented on the balance sheet on page 22) reported a combined fund balance of $12,979,166 which is $338,545 lower than last year's total of $13,317,711. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 and December 31, 2010 for all major and non-major governmental funds.

	Fund Balances 12/31/11	Fund Balances 12/31/10	Increase/ (Decrease)
Major funds:			
General	$ 4,031,336	$ 4,396,307	($364,971)
Voted income tax	3,012,343	2,814,233	198,110
Other non-major governmental funds	5,935,487	6,107,171	(171,684)
Total	$12,979,166	$13,317,711	($338,545)

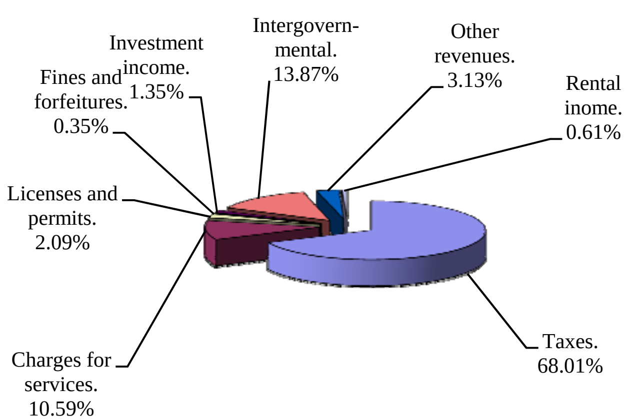
General Fund

The City's general fund balance decreased $364,971. The table that follows assists in illustrating the revenues of the general fund.

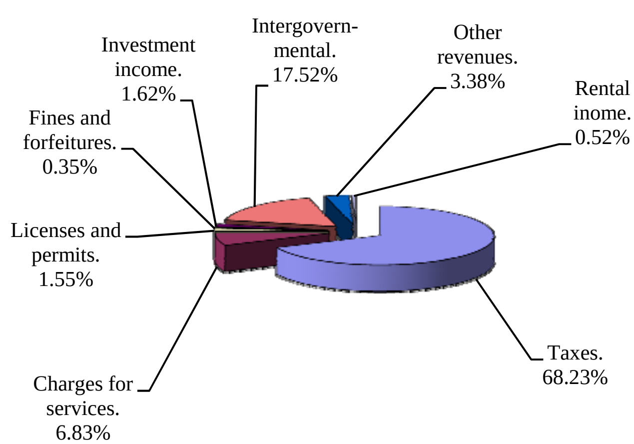
	2011 Amount	2010 Amount	Percentage Change	
Revenues:				
Taxes	$3,023,823	$3,288,670	(8.05)	%
Charges for services	470,649	329,033	43.04	%
Licenses and permits	92,787	74,905	23.87	%
Fines and forfeitures	15,568	16,914	(7.96)	%
Intergovernmental	616,857	844,446	(26.95)	%
Investment income	60,046	78,031	(23.05)	%
Rental income	27,264	25,050	8.84	%
Other	139,125	162,913	(14.60)	%
Total	$4,446,119	$4,819,962	(7.76)	%

Overall revenues of the general fund decreased $373,843 or 7.76%. Tax revenue decreased $264,847 or 8.05% due to a decrease in income tax revenue as a result of difficult local economic circumstances. Intergovernmental revenue decreased $227,589 or 26.95% primarily due to a decrease in tangible personal property tax loss reimbursements received from the State during 2011 as well as a decline in the local government funds estimate at December 31, 2011. Investment income decreased $17,985 or 23.05% due to poor interest rates.

Revenues - 2011



Revenues - 2010

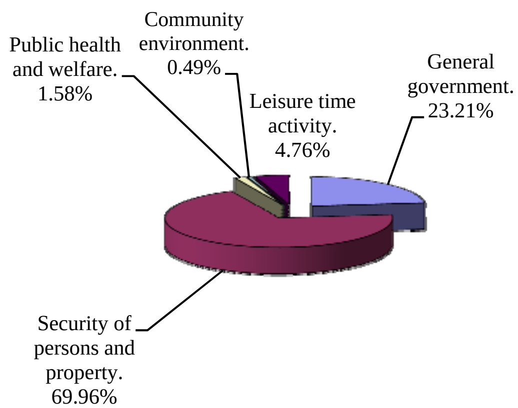


The table that follows assists in illustrating the expenditures of the general fund.

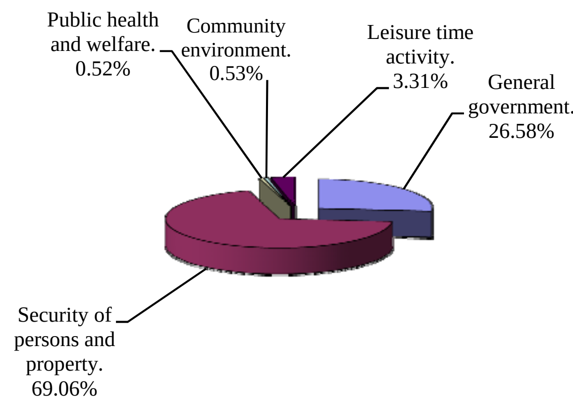
	2011 Amount	2010 Amount	Percent Change	
Expenditures:				
General government	$ 856,820	$1,021,236	(16.10)	%
Security of person and property	2,582,759	2,653,201	(2.65)	%
Public health and welfare	58,270	20,090	190.04	%
Community environment	18,247	20,194	(9.64)	%
Leisure time activity	175,915	127,326	38.16	%
Total	$3,692,011	$3,842,047	(3.91)	%

Overall expenditures of the general fund decreased $150,036 or 3.91%. General government expenditures decreased $164,416 or 16.10% due to a decrease in cash outflows related to the collection of income taxes in 2011. Public health and welfare and leisure time activity expenditures increased $38,180 and $48,589, respectively, due to increased activity within the related departments.

Expenditures - 2011



Expenditures - 2010



Voted Income Tax Fund

The voted income tax fund had revenues of $1,246,625 in 2011. The expenditures of the voted income tax fund totaled $1,048,515 in 2011. The net increase in fund balance for the voted income tax fund was $198,110 or 7.04%.

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, the actual revenues came in $506,207 higher than they were in the final budget and actual expenditures and other financing uses were $1,167,182 less than the amount in the final budget.

The variance in the expenditures and other financing uses is the result of the City's conservative budgeting. Budgeted revenues did not change from the original to the final budget. Budgeted expenditures and other financing uses increased $35,000 from the original to the final budget due to an increase in anticipated expenditures related to the security of persons and property.

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 $1,118,881 in 2011. The operating expenses of the water fund totaled $1,454,648 in 2011. The water fund had non-operating revenues of $1,970 in 2011. The decrease in net assets for the water fund was $333,797 or 5.50%.

Sewer Fund

The sewer fund had operating revenues of $2,020,585 in 2011. The operating expenses of the sewer fund totaled $1,993,646 in 2011. The sewer fund had non-operating revenues of $4,094 and non-operating expenses of $365,943 in 2011. The decrease in net assets for the sewer fund was $334,910 or 4.26%.

Electric Fund

The electric fund had operating revenues of $15,757,752 in 2011. The operating expenses of the electric fund totaled $18,843,468 in 2011. The electric fund had non-operating revenues of $29,805 and non-operating expenses of $146,506 in 2011. The electric fund also had transfers in of $815,751. The decrease in net assets for the electric fund was $2,386,666 or 17.31%.

Refuse Fund

The refuse fund had operating revenues of $847,831 in 2011. The operating expenses of the refuse fund totaled $709,718 in 2011. The refuse fund had non-operating revenues of $912 in 2011. The increase in net assets for the refuse fund was $139,025 or 18.97%.

Capital Assets and Debt Administration

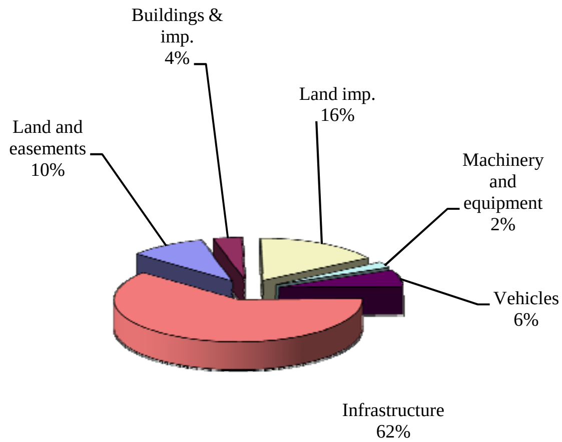
Capital Assets

At the end of 2011, the City had $48,398,903 (net of accumulated depreciation) invested in land, easements, construction in progress, land improvements, buildings and improvements, equipment and furniture, vehicles, and infrastructure. Of this total, $19,353,439 was reported in governmental activities and $29,045,464 was reported in business-type activities. The following table shows December 31, 2011 balances compared to December 31, 2010:

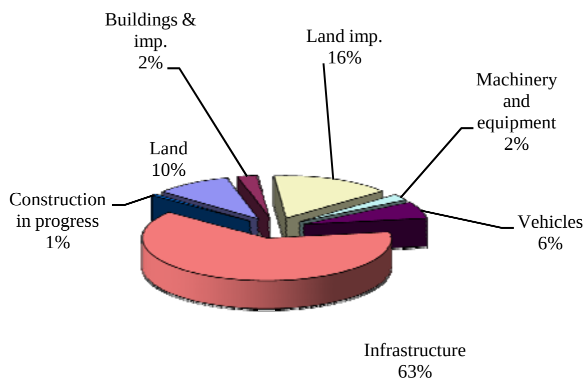
	Governmental Activities		**Business-type Activities**		**Total**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Land and easements	$ 1,919,240	$ 1,919,240	$ 1,221,910	$ 1,194,470	$ 3,141,150	$ 3,113,710
Construction in progress		120,942	392,321		392,321	120,942
Land improvements	3,151,638	3,029,830	2,369,495	2,113,611	5,521,133	5,143,441
Buildings and improvements	706,969	482,308	11,714,146	12,296,971	12,421,115	12,779,279
Equipment and furniture	436,135	454,590	1,813,704	1,999,609	2,249,839	2,454,199
Vehicles	1,244,048	1,248,037	852,894	595,875	2,096,942	1,843,912
Infrastructure	11,895,409	12,253,408	10,680,994	11,093,498	22,576,403	23,346,906
Total	$19,353,439	$19,508,355	$29,045,464	$29,294,034	$48,398,903	$48,802,389

The following graphs show the breakdown of governmental capital assets by category at December 31, 2011 and December 31, 2010.

Capital Assets - Governmental Activities 2011



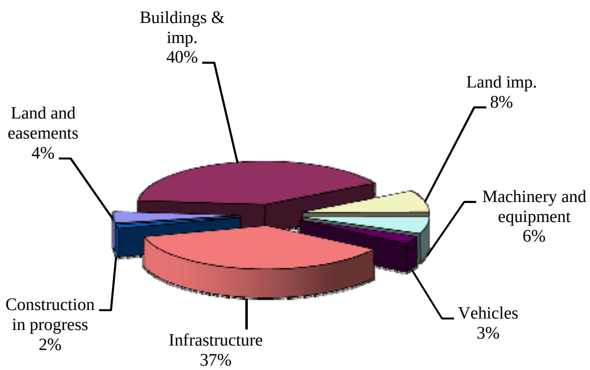
Capital Assets - Governmental Activities 2010



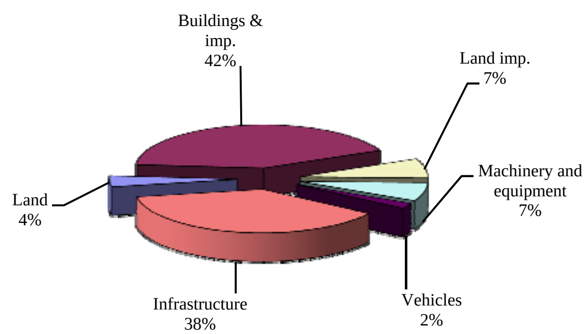
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, street lighting, and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 62% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category at December 31, 2011 and December 31, 2010.

Capital Assets - Business-type Activities 2011



Capital Assets - Business-type Activities 2010



The City's largest business-type capital asset categories are buildings and improvements and infrastructure. The buildings and improvements asset category represents approximately 41% of the City's total business-type capital assets. Infrastructure 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 37% of the City's total business-type capital assets. Additional information on the City's capital assets can be found in Note 11.

Debt Administration

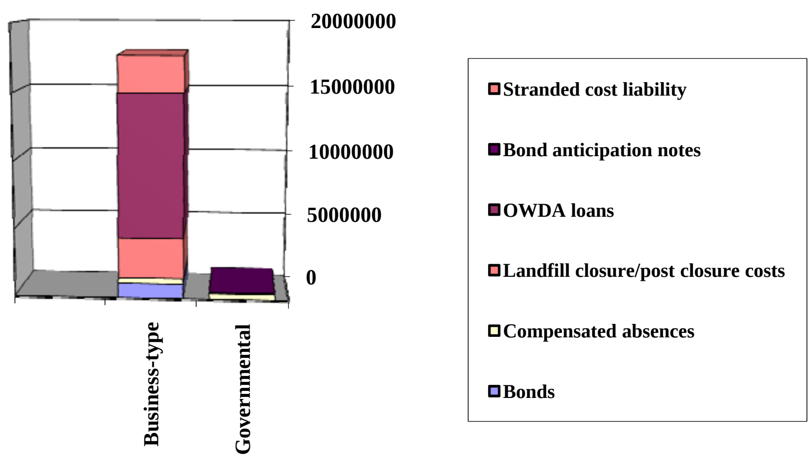
The City had the following long-term obligations outstanding at December 31, 2011 and December 31, 2010.

	Governmental Activities	
	2011	**2010**
Bond anticipation notes	$ 95,000	$100,000
Compensated absences	423,836	403,482
Total long-term obligations	$518,836	$503,482
	Business-type Activities	
General obligation bonds	$ 1,090,535	$ 1,184,173
Total bonds	1,090,535	1,184,173
Compensated absences	414,973	401,085
Stranded cost liability	2,664,281	
OWDA loans	10,573,990	10,995,707
Landfill closure/post-closure costs	2,972,640	3,079,980
Total long-term obligations	$17,716,419	$15,660,945

Significant change in debt for the business type activities due to the recording of AMP Ohio Stranded cost liability.

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

Long-term Obligations



Additional information on the City's long-term obligations can be found in Note 13.

Economic Conditions and Outlook

Veyance Technologies, Inc., formerly the Goodyear Tire & Rubber Company, remains one of the larger manufacturing plants in the City, employing approximately 350 people locally. Veyance has managed to keep the local Engineered Products Plant competitive and responsive to global market changes over the past several years. The primary product of the plant is rubber tracks and wheels for agricultural equipment. The company also makes industrial conveyor belts and rubber tank treads for use on U.S. Army battle tanks. The local Veyance plant has made major capital investments in machinery and equipment over the past several years and, due to the growing agricultural business, expects to invest in additional machinery and equipment by the end of 2012.

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

Setex was the first Japanese company to call the City its home when it started the production of automobile seats for Honda in 1988. Over the past 20 years, Setex has experienced tremendous growth, with employment levels increasing from the initial 65 employees to the current 410 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. Setex continues to manage multiple lines and expects to acquire new lines for Honda, which will result in job creation and investment in new equipment through 2014.

AAP St. Marys Corporation, a division of Hitachi Metals America Ltd., established their aluminum wheel casting plant in the City in 1989. AAP St. Marys has also experienced tremendous growth, with employment levels increasing from the initial 65 employees to the 525 employees today. Current employee totals include more than 100 new employees hired since October of 2011. With product demand back to pre-recession levels, AAP St. Marys is projecting continued growth. AAP St. Marys is a key to the stability of the industrial base in the City.

The City has several other manufacturing facilities that add stability to the local economy. Parker Hannifin Corporation, a manufacturer of hydraulic cylinder components, employs approximately 134 people and expects to add another five to eight employees in 2012. The company constructed its plant within the City in 2000 and has additional acreage on site for new growth. Omni Manufacturing, Inc., a metal tooling and stamping plant, has enjoyed steady growth with an employment level near 130 employees. In addition, the St. Marys Foundry, Pro-Pet, Classic Delight, MTO, and others combine to offer diverse manufacturing jobs for families in the City's area.

The Joint Township District Memorial Hospital remains the top non-manufacturing sector employer with over 800 employees. The hospital is considered a top health care facility in the United States and continues to improve services and upgrade the facility, recently opening a new wound care center, a new vein center, a new sleep center, and completing renovations for an on-site laboratory.

Retail growth was very strong in the City in the past year with the opening of a new 64,322 square foot Kohl's store, creating approximately 130 jobs in the City. The restaurant industry continued to grow as well with the recent location of three family/casual dining restaurants in the City creating over 185 service sector jobs.

The diversity of the manufacturing, retail and service sectors bodes well for the economy of the City. If there is an occasional downturn in one individual industry, the City's diverse employment opportunities should be strong enough to withstand any economic challenges that occur.

For the Future

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

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

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

The City's future promises to be even brighter than its historic past. The City is a community of 8,300 residents. The people embrace a lifestyle based on strong family values. Caring for and respecting neighbors is a way of life. The police, fire, and EMS forces offer hometown security only experienced in a rural setting such as the City's. Utility services offered by the City are some of the most reliable and economical in the entire region.

The City's residents are proud of their past and look forward to the future with excitement and enthusiasm. Civic pride has been highlighted in the City by several community projects that have made the downtown business district a focal point for the entire area. Citizens donated their time and efforts to construct a replica of a historic canal boat, a wooden covered bridge, a grotto along the St. Marys River, and a Veteran's Memorial Walkway. In addition, Lock 13 was recently restored to further enhance the canal atmosphere. The City's people are "can do" people, taking strides to improve their community.

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

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.

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CITY OF ST. MARYS
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	$11,248,833	$12,536,503	$23,785,336
Receivables (net of allowance for uncollectibles):			
Income taxes	652,566		652,566
Real and other taxes	377,824	66,925	444,749
Accounts	53,809	1,916,831	1,970,640
Special assessments	311,048	512	311,560
Loans	1,509,816		1,509,816
Notes	143,190		143,190
Accrued interest	17,698		17,698
Internal balance	(144,389)	144,389	
Due from other governments	362,067	7,399	369,466
Prepayments	53,797	89,679	143,476
Materials and supplies inventory	79,870	429,776	509,646
Investment in joint venture		871,079	871,079
Restricted assets:			
Refundable cash deposits		346,761	346,761
Cash with fiscal agent	9,371		9,371
Capital assets:			
Non-depreciable capital assets	1,919,240	1,614,231	3,533,471
Depreciable capital assets, net	17,434,199	27,431,233	44,865,432
Total capital assets, net	19,353,439	29,045,464	48,398,903
Total assets	34,028,939	45,455,318	79,484,257
Liabilities:			
Accounts payable	19,657	1,254,193	1,273,850
Contracts payable	51,813	500,867	552,680
Retainage payable	9,861	21,156	31,017
Accrued wages and benefits	59,118	41,550	100,668
Due to other governments	156,076	45,628	201,704
Judgments payable	4,000		4,000
Unearned revenue	364,716		364,716
Accrued interest payable	468		468
Payable from restricted assets:			
Refundable cash deposits		346,761	346,761
Long-term liabilities:			
Due within one year	189,121	839,076	1,028,197
Due in more than one year	329,715	16,877,343	17,207,058
Total liabilities	1,184,545	19,926,574	21,111,119
Net assets:			
Invested in capital assets, net of related debt	19,258,439	17,380,939	36,639,378
Restricted for:			
Capital projects	3,349,989		3,349,989
Debt service	84,777		84,777
Transportation projects	1,415,650		1,415,650
Community improvements	2,053,401		2,053,401
Other purposes	20,073		20,073
Unrestricted	6,662,065	8,147,805	14,809,870
Total net assets	$32,844,394	$25,528,744	$58,373,138

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Governmental activities:				
General government	$949,828	$140,363		$32,300
Security of persons and property	3,355,764	429,200		
Public health and welfare	68,647	9,546		
Transportation	1,960,452	110,474	$350,623	138,710
Community environment	134,817	2,989	25,287	
Leisure time activity	394,902	116,151		
Interest and fiscal charges	14,350			
Total governmental activities	6,878,760	808,723	375,910	171,010
Business-type activities:				
Water	1,454,695	1,075,194		
Sewer	2,359,637	2,001,435		
Electric	18,990,040	15,576,923		
Refuse	709,837	807,685		
Total business-type activities	23,514,209	19,461,237		
Total primary government	$30,392,969	$20,269,960	$375,910	$171,010

General Revenues:
Property taxes levied for:
General operations
Special purposes
Income taxes levied for:
General operations
Special purposes
Capital projects
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous
Total general revenues

Transfers

Total general revenues, special items and 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 (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
($777,165)		($777,165)
(2,926,564)		(2,926,564)
(59,101)		(59,101)
(1,360,645)		(1,360,645)
(106,541)		(106,541)
(278,751)		(278,751)
(14,350)		(14,350)
(5,523,117)		(5,523,117)
	($379,501)	(379,501)
	(358,202)	(358,202)
	(3,413,117)	(3,413,117)
	97,848	97,848
	(4,052,972)	(4,052,972)
(5,523,117)	(4,052,972)	(9,576,089)
1,112,718		1,112,718
68,730		68,730
1,840,489		1,840,489
398,665		398,665
1,374,459		1,374,459
587,276	5,105	592,381
72,902	31,676	104,578
161,341	283,812	445,153
5,616,580	320,593	5,937,173
(815,751)	815,751	
4,800,829	1,136,344	5,937,173
(722,288)	(2,916,628)	(3,638,916)
33,566,682	28,445,372	62,012,054
$32,844,394	$25,528,744	$58,373,138

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CITY OF ST. MARYS
AUGLAIZE COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Voted Income Tax	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	$3,761,390	$2,945,714	$4,492,604	$11,199,708
Receivables:				
Income taxes	313,232	217,500	121,834	652,566
Real and other taxes	298,920		78,904	377,824
Accounts	53,809			53,809
Special assessments			311,048	311,048
Loans			1,509,816	1,509,816
Notes			143,190	143,190
Accrued interest	17,698			17,698
Due from other funds	64,579			64,579
Due from other governments	172,783		189,284	362,067
Prepayments	46,691		7,106	53,797
Materials and supplies inventory	30,413		17,594	48,007
Restricted assets:				
Cash with fiscal agent			9,371	9,371
Total assets	4,759,515	3,163,214	6,880,751	14,803,480
Liabilities:				
Accounts payable	18,446			18,446
Contracts payable		42,389	9,424	51,813
Retainage payable		2,017	7,844	9,861
Accrued wages and benefits	47,502	2,020	8,649	58,171
Compensated absences payable	7,888			7,888
Interfund loans payable			214,480	214,480
Due to other governments	51,050	2,094	101,792	154,936
Judgments payable	4,000			4,000
Unearned revenue	288,216		76,500	364,716
Deferred revenue	311,077	102,351	526,575	940,003
Total liabilities	728,179	150,871	945,264	1,824,314
Fund balances:				
Non-spendable	79,756		24,700	104,456
Restricted		3,012,343	3,580,612	6,592,955
Committed			2,590,913	2,590,913
Assigned	2,587,289			2,587,289
Unassigned (deficit)	1,364,291		(260,738)	1,103,553
Total fund balances	4,031,336	3,012,343	5,935,487	12,979,166
Total liabilities and fund balances	$4,759,515	$3,163,214	$6,880,751	$14,803,480

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total governmental fund balances		$12,979,166
Amounts reported for governmental activities on 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.		19,321,939
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes receivable	$307,083	
Real and other taxes receivable	13,108	
Accounts receivable	20,829	
Special assessments receivable	311,048	
Accrued interest receivable	15,254	
Due from other governments	272,681	
Total		940,003
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 on the statement of net assets. The net assets of the internal service funds, including an internal balance of ($5,512), are:		102,705
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities (excluding amounts reported in internal service funds) are as follows:		
Bond anticipation notes payable	(95,000)	
Compensated absences payable	(403,951)	
Accrued interest payable	(468)	
Total		(499,419)
Net assets of governmental activities		$32,844,394

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Voted Income Tax	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	$1,911,194	$1,209,690	$640,031	$3,760,915
Real and other taxes	1,112,629		68,670	1,181,299
Charges for services	470,649		91,852	562,501
Licenses, permits and fees	92,787			92,787
Fines and forfeitures	15,568		1,628	17,196
Special assessments			133,538	133,538
Intergovernmental	616,857	32,300	467,090	1,116,247
Investment income	60,046	1,393	26,964	88,403
Rental income	27,264			27,264
Contributions and donations	6,665		415	7,080
Other	132,460	3,242	23,283	158,985
Total revenues	4,446,119	1,246,625	1,453,471	7,146,215
Expenditures:				
Current:				
General government	856,820			856,820
Security of persons and property	2,582,759		365,590	2,948,349
Public health and welfare	58,270			58,270
Transportation			826,801	826,801
Community environment	18,247		62,044	80,291
Leisure time activity	175,915		89,169	265,084
Capital outlay		1,048,515	557,885	1,606,400
Debt service:				
Principal retirement			100,000	100,000
Interest and fiscal charges			14,364	14,364
Total expenditures	3,692,011	1,048,515	2,015,853	6,756,379
Excess (deficiency) of revenues over (under) expenditures	754,108	198,110	(562,382)	389,836
Other financing sources (uses):				
Note issuance			95,000	95,000
Transfers in			298,773	298,773
Transfers out	(1,112,329)		(2,195)	(1,114,524)
Total other financing sources (uses)	(1,112,329)		391,578	(720,751)
Net change in fund balances	(358,221)	198,110	(170,804)	(330,915)
Fund balances at beginning of year	4,396,307	2,814,233	6,107,171	13,317,711
Decrease in reserve for inventory	(6,750)		(880)	(7,630)
Fund balances at end of year	$4,031,336	$3,012,343	$5,935,487	$12,979,166

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

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, 2011

Net change in fund balances - total governmental funds		($330,915)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period. Both amounts are exclusive of internal service funds activity.		
Capital asset additions	$1,336,784	
Current year depreciation	(1,481,097)	
Total		(144,313)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins and donations) is to decrease net assets.		(7,603)
Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed.		(7,630)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	(147,302)	
Real and other taxes	149	
Licenses, permits and fees	(1,449)	
Fines and forfeitures	(50)	
Special assessments	(23,064)	
Intergovernmental	(46,001)	
Investment income	9,798	
Other	(4,309)	
Total		(212,228)
Proceeds of bond anticipation notes are reported as an other financing source in the governmental funds; however, in the statement of activities, they are not reported as another financing source as they increase the liabilities on the statement of net assets.		(95,000)
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.		14
Principal payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		100,000
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore of current financial resources and therefore reported as expenditures in governmental funds.		(13,854)
The internal service funds used by management to charge the costs of of employee insurance and the maintenance garage to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds, including internal balance of ($280), is allocated among the governmental activities.		(10,759)
Change in net assets of governmental activities		($722,288)

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Income taxes	$1,685,600	$1,685,600	$1,902,810	$217,210
Real and other taxes	984,570	984,570	1,111,444	126,874
Charges for services	413,064	413,064	466,292	53,228
Licenses, permits and fees	82,195	82,195	92,787	10,592
Fines and forfeitures	13,868	13,868	15,655	1,787
Intergovernmental	551,709	551,709	622,803	71,094
Investment income	47,960	47,960	54,140	6,180
Rental income	24,152	24,152	27,264	3,112
Contributions and donations	5,904	5,904	6,665	761
Other	119,263	119,263	134,632	15,369
Total revenues	3,928,285	3,928,285	4,434,492	506,207
Expenditures:				
Current:				
General government	1,483,685	1,483,685	889,521	594,164
Security of persons and property	2,911,731	2,946,731	2,695,542	251,189
Public health and welfare	56,650	56,650	60,743	(4,093)
Community environment	25,300	25,300	22,307	2,993
Leisure time activity	292,086	292,086	191,286	100,800
Total expenditures	4,769,452	4,804,452	3,859,399	945,053
Excess (deficiency) of revenues over (under) expenditure	(841,167)	(876,167)	575,093	1,451,260
Other financing uses:				
Transfers out	(1,334,458)	(1,334,458)	(1,112,329)	222,129
Total other financing uses	(1,334,458)	(1,334,458)	(1,112,329)	222,129
Net change in fund balance	(2,175,625)	(2,210,625)	(537,236)	1,673,389
Fund balance at beginning of year (restated - note 3)	3,939,060	3,939,060	3,939,060	
Prior year encumbrances appropriated	164,702	164,702	164,702	
Fund balance at end of year	$1,928,137	$1,893,137	$3,566,526	$1,673,389

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	**Sewer**	**Electric**	**Refuse**	**Total**	
Assets:						
Current assets:						
Equity in pooled cash and cash equivalents	$930,620	$2,247,807	$7,290,603	$2,067,473	$12,536,503	$49,125
Receivables (net of allowance for uncollectibles):						
Real and other taxes			66,925		66,925	
Accounts	103,090	181,444	1,558,651	73,646	1,916,831	
Special assessments	311	201			512	
Interfund loans			214,480		214,480	
Due from other governments			120	7,279	7,399	
Prepayments	11,039	10,522	63,008	5,110	89,679	
Materials and supplies inventory	148,820	47,669	219,908	13,379	429,776	31,863
Total current assets	1,193,880	2,487,643	9,413,695	2,166,887	15,262,105	80,988
Non-current assets:						
Restricted assets:						
Refundable cash deposits			346,761		346,761	
Investment in joint venture			871,079		871,079	
Capital assets:						
Non-depreciable capital assets	232,462	564,261	513,813	303,695	1,614,231	
Depreciable capital assets, net	4,447,934	15,326,480	6,236,154	1,420,665	27,431,233	31,500
Total capital assets, net	4,680,396	15,890,741	6,749,967	1,724,360	29,045,464	31,500
Total non-current assets	4,680,396	15,890,741	7,967,807	1,724,360	30,263,304	31,500
Total assets	5,874,276	18,378,384	17,381,502	3,891,247	45,525,409	112,488
Liabilities:						
Current liabilities:						
Accounts payable	22,712	20,095	1,203,328	8,058	1,254,193	1,211
Contracts payable		138,055	362,812		500,867	
Retainage payable		21,156			21,156	
Accrued wages and benefits	10,105	8,777	18,758	3,910	41,550	947
Compensated absences payable	22,353	19,617	70,071	12,443	124,484	2,107
Due to other funds			64,579		64,579	
Due to other governments	10,730	9,259	20,348	5,291	45,628	1,140
Payable from restricted assets:						
Refundable cash deposits			346,761		346,761	
Current portion OWDA loans payable		436,006			436,006	
Current portion general obligation bonds			98,586		98,586	
Current portion AMP-Ohio stranded cost payable			180,000		180,000	
Total current liabilities	65,900	652,965	2,365,243	29,702	3,113,810	5,405
Long-term liabilities:						
Compensated absences	74,222	59,148	140,051	17,068	290,489	9,890
OWDA loans payable		10,137,984			10,137,984	
General obligation bonds payable			991,949		991,949	
AMP-Ohio stranded cost payable			2,484,281		2,484,281	
Landfill closure/postclosure liability				2,972,640	2,972,640	
Total long-term liabilities	74,222	10,197,132	3,616,281	2,989,708	16,877,343	9,890
Total liabilities	140,122	10,850,097	5,981,524	3,019,410	19,991,153	15,295
Net assets:						
Invested in capital assets, net of related debt	4,680,396	5,316,751	5,659,432	1,724,360	17,380,939	31,500
Unrestricted (deficit)	1,053,758	2,211,536	5,740,546	(852,523)	8,153,317	65,693
Total net assets	$5,734,154	$7,528,287	$11,399,978	$871,837	25,534,256	$97,193
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.					(5,512)	
Net assets of business-type activities					$25,528,744	

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	**Sewer**	**Electric**	**Refuse**	**Total**	
Operating revenues:						
Charges for services	$1,074,236	$1,992,665	$15,576,923	$807,685	$19,451,509	$444,200
Tap-in fees	958	8,770			9,728	
Rental income	1,537		17,849	11,625	31,011	
Other	42,150	19,150	162,980	28,521	252,801	1,045
Total operating revenues	1,118,881	2,020,585	15,757,752	847,831	19,745,049	445,245
Operating expenses:						
Personal services	728,733	624,623	1,231,902	341,119	2,926,377	70,476
Contractual services	263,733	530,014	3,025,257	233,084	4,052,088	1,373
Materials and supplies	215,705	110,837	13,960,920	11,104	14,298,566	381,435
Depreciation	246,269	727,847	619,084	124,328	1,717,528	3,000
Other	208	325	6,305	83	6,921	
Total operating expenses	1,454,648	1,993,646	18,843,468	709,718	23,001,480	456,284
Operating income (loss)	(335,767)	26,939	(3,085,716)	138,113	(3,256,431)	(11,039)
Non-operating revenues (expenses):						
Interest and fiscal charges		(365,943)	(58,522)		(424,465)	
Interest revenue	1,970	4,094	24,700	912	31,676	
Decrease in investment in joint venture			(82,879)		(82,879)	
Other local tax revenue			5,105		5,105	
Excise tax expense			(5,105)		(5,105)	
Total nonoperating revenues (expenses)	1,970	(361,849)	(116,701)	912	(475,668)	
Net income (loss) before transfers	(333,797)	(334,910)	(3,202,417)	139,025	(3,732,099)	(11,039)
Transfers in			815,751		815,751	
Change in net assets	(333,797)	(334,910)	(2,386,666)	139,025	(2,916,348)	(11,039)
Net assets at beginning of year	6,067,951	7,863,197	13,786,644	732,812		108,232
Net assets at end of year	$5,734,154	$7,528,287	$11,399,978	$871,837		$97,193
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds.					(280)	
Change in net assets of business-type activities.					($2,916,628)	

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	**Sewer**	**Electric**	**Refuse**	**Total**	
Cash flows from operating activities:						
Cash received from charges for services	$1,075,368	$2,003,941	$15,428,878	$804,410	$19,312,597	$444,200
Cash received from tap-in fees	958	8,770			9,728	
Cash received from rental charges	1,537		17,849	10,675	30,061	
Cash received from other operations	42,135	19,150	334,111	24,834	420,230	1,045
Cash payments for personal services	(727,087)	(618,783)	(1,219,385)	(338,113)	(2,903,368)	(70,077)
Cash payments for contract services	(244,560)	(512,959)	(359,991)	(339,804)	(1,457,314)	(1,373)
Cash payments for materials and supplies	(217,121)	(113,524)	(13,854,159)	(10,387)	(14,195,191)	(379,149)
Cash payments for other operations	(208)	(325)	(81,003)	(83)	(81,619)	
Net cash provided by (used in) operating activities	(68,978)	786,270	266,300	151,532	1,135,124	(5,354)
Cash flows from noncapital financing activities:						
Cash received from transfers in			815,751		815,751	
Cash received from the repayment of interfund loans			88,440		88,440	
Cash payments for new interfund loans			(83,000)		(83,000)	
Cash received from other local taxes			5,105		5,105	
Cash payments for excise tax expense			(5,105)		(5,105)	
Net cash provided by non-capital financing activities			821,191		821,191	
Cash flows from capital and related financing activities:						
Cash payments for the acquisition of capital assets	(26,169)	(293,407)	(672,991)		(992,567)	
Cash payments for principal retirement		(421,717)	(93,638)		(515,355)	
Cash payments for interest and fiscal charges		(365,943)	(58,522)		(424,465)	
Net cash used in capital and related financing activities	(26,169)	(1,081,067)	(825,151)		(1,932,387)	
Cash flows from investing activities:						
Cash received from interest earned	1,970	4,094	24,700	912	31,676	
Net cash provided by investing activities	1,970	4,094	24,700	912	31,676	
Net increase (decrease) in cash and cash equivalents	(93,177)	(290,703)	287,040	152,444	55,604	(5,354)
Cash and cash equivalents at beginning of year	1,023,797	2,538,510	7,350,324	1,915,029	12,827,660	54,479
Cash and cash equivalents at end of year	930,620	2,247,807	7,637,364	2,067,473	12,883,264	49,125
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	(335,767)	26,939	(3,085,716)	138,113	(3,256,431)	(11,039)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	246,269	727,847	619,084	124,328	1,717,528	3,000
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	1,045	11,284	(95,655)	(4,225)	(87,551)	
(Increase) decrease in special assessments receivable	72	(8)			64	
(Increase) in due from other governments			(120)	(3,687)	(3,807)	
(Increase) in real and other taxes receivable			(1,188)		(1,188)	
(Increase) decrease in materials and supplies inventory	5,865	(2,687)	76,217	717	80,112	3,020
(Increase) decrease in prepayments	66	77	(429)	110	(176)	
Increase (decrease) in accounts payable	11,826	16,978	31,958	510	61,272	(734)
Increase (decrease) in accrued wages and benefits	844	180	869	(658)	1,235	14
Increase (decrease) in compensated absences payable	(1,653)	4,110	8,598	2,833	13,888	187
Increase in due to other governments	2,455	1,550	2,811	831	7,647	198
Increase in due to other funds			1,427		1,427	
Increase in refundable cash deposits liability			44,163		44,163	
(Decrease) in landfill closure/post closure liability				(107,340)	(107,340)	
Increase in AMP-Ohio Stranded Cost payable			2,664,281		2,664,281	
Net cash provided by (used in) operating activities	($68,978)	$786,270	$266,300	$151,532	$1,135,124	($5,354)

Non-Cash Transactions

During 2010, the water fund purchased capital assets on account in the amount of $10,503.

During 2011 and 2010, the sewer fund purchased capital assets on account in the amount of $159,211 and

During 2011 and 2010, the electric fund purchased capital assets on account in the amount of $362,812

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2011

	Agency
Assets:	
Equity in pooled cash and cash equivalents	$87,519
Receivables:	
Income taxes	1,012,434
Total assets	1,099,953
Liabilities:	
Due to other governments	1,027,580
Payroll withholdings	2,394
Undistributed assets	69,979
Total liabilities	$1,099,953

See accompanying notes to the basic financial statements.

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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.

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) guidance issued on or before November 30, 1989, provided it does not conflict with or contradict GASB pronouncements. The City does not apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The City's reporting entity has been defined according to GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units".

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's Governing Board and (1) the City is able to influence significantly the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the City has no component units for 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Joint Venture With Equity Interest

Ohio Municipal Electric Generation Agency Joint Venture

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. Under the terms of the Agreement each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2011, the City of St. Marys has met their debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081 MW is the participants entitlement and 4.569 MW 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. On January 3, 2011, AMP-Ohio redeemed all of the $31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP-Ohio's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP-Ohio credit facility. As of December 31, 2011, the outstanding debt was $23,633,931. The City's net obligation for this amount at December 31, 2011 was $898,090. 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 $871,079 at December 31, 2011. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2011 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
	95.20%	$127,640		4.80%	6,441
			Grand Total	100.00%	$134,081

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

Year Ended December 31,	Principal	Interest	Total Debt Service
2012	$ 98,586	$ 53,871	$ 152,457
2013	103,725	48,695	152,420
2014	109,054	43,249	152,303
2015	114,763	37,524	152,287
2016	120,853	31,499	152,352
2017 - 2020	543,554	66,039	609,593
Total obligation	$1,090,535	$280,877	$1,371,412
Less: amount held in reserve	(192,445)		
Net obligation	$ 898,090		

2. 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 Municipal League Workers' Compensation Group Rating Plan (the "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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

1. 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.

2. Fund Financial Statements

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

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

1. 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 and reports all financial resources except those accounted for in another fund.

Voted income tax fund - The voted income tax fund accounts for and reports financial resources resulting from the City’s additional 0.5% income tax levy that are spent on various capital improvements.

Other governmental funds of the City are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

2. Proprietary Funds

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds which are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds have been established to account for outside sewer district deposits, trust deposits, and employee savings bond deposits.

D. Measurement Focus

1. 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. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

2. 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 financial statements for governmental funds.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

1. **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.

   Non-exchange 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 non-exchange 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.

2. **Unearned Revenue and Deferred Revenue** - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

   Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2011, are recorded as deferred revenue in the fund financial statements.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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.

1. 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 purpose of this budget document is to reflect the need for existing or increased tax rates. The Auglaize County auditor waived this requirement for 2011.

2. 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. On or before 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 finds 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 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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.

4. Budgeted Level of Expenditures

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

5. Lapsing of Appropriations

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

G. Cash and Investments

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

Cash and cash equivalents that are held separately for the City by fiscal agents, and are not held within the City treasury, are recorded on the financial statements as "cash with fiscal agent".

During 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, U.S. money market accounts, Ohio Housing Finance Agency (OHFA) and nonnegotiable certificates of deposit. Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on December 31, 2011.

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 2011 was $60,046, which includes $40,818 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.

An analysis of the City's investments at year end is provided in Note 4.

H. Loans Receivable

Loans receivable represent the right to receive payment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients. See Note 8 for further information on the City's loans receivable.

I. Notes Receivable

Notes receivable represent the right to receive payment on notes issued to the Community Improvement Corporation of St. Marys (CIC). These notes are based upon written agreements between the City and the CIC. See Note 9 for further information on the City's notes receivable.

J. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2011 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.

On the governmental fund financial statements, reported prepaid items is equally offset by non-spendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

K. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On the governmental fund financial statements, reported materials and supplies inventory is equally offset by non-spendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

L. Capital Assets

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

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

All reported capital assets are depreciated except for land, easements 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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimates Lives
Land improvements	20 – 25 years	20 – 25 years
Buildings	20 – 25 years	25 years
Building improvements	20 – 25 years	25 years
Equipment and machinery	7 – 15 years	7 – 25 years
Vehicles	7 – 10 years	7 – 10 years
Infrastructure	20 – 40 years	10 – 50years

M. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

N. Accrued Liabilities and Long-Term Obligations

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

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

O. Interfund Balances

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

These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

P. 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 non-operating 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.

Q. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-spendable - The non-spendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the City Auditor the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

R. Restricted Assets

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

S. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Capital Contributions

Contributions of capital in governmental activities and 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, from grants or outside contributions of resources restricted to capital acquisition and construction, or from other funds within the City. Capital contributions are reported as such in the statement of activities and as revenue in the proprietary fund financial statements. During 2011, the City's governmental activities received $38,236 in capital contributions from outside entities.

U. 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes primarily consist of monies held for law enforcement and education.

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The requirements of this statement classify fund balance as non-spendable, restricted, committed, assigned, and/or unassigned. The implementation of this Statement did not impact the previously stated fund balances.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the City.

B. Deficit Fund Balances

Fund balances at December 31, 2011 included the following individual fund deficits:

Non-major governmental funds:	
Police pension	$40,877
Fire pension	42,688
Special assessment bond retirement	177,173

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year end. The general fund is liable for any deficits and provides transfers when cash is required, not when accruals occur. The deficit fund balance in the special assessment bond retirement fund (a non-major governmental fund) resulted from the reporting of an interfund loan as a fund liability rather than as another financing source since the interfund loan is subject to repayment. The deficit fund balances in the other non-major governmental funds resulted from adjustments for accrued liabilities. These deficit balances will be eliminated as resources become available to liquidate the liabilities.

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The City has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at January 1, 2011 is as follows:

Budgetary Basis	
	General Fund
Balance at December 31, 2010	$3,939,761
Funds budgeted elsewhere	(701)
Restated balance at January 1, 2011	$3,939,060

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

4. DEPOSITS AND INVESTMENTS (Continued)

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 items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;

7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and,

8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

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

4. DEPOSITS AND INVESTMENTS (Continued)

Restricted cash with fiscal agent: At year end, the City had $9,371 on deposit with a financial institution for permissive tax monies held by Auglaize County. The data regarding insurance and collateralization can be obtained from the Auglaize County financial report for the year ended December 31, 2011. This amount is not included in "investments" below.

Restricted assets: At year end, the City had various deposits which were restricted (See Note 18). These amounts are included in "deposits with financial institutions" below.

A. Deposits with Financial Institutions

At December 31, 2011, the carrying amount of all City deposits was $13,556,718. As of December 31, 2011, $1,585,712 of the City's bank balance of $13,797,919 was covered by the Federal Deposit Insurance Corporation, and $12,212,207 was exposed to custodial risk as discussed below.

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

B. Investments

As of December 31, 2011, the City had the following investments and maturities:

		Investment Maturities		
Investment type	**Fair Value**	**6 months or less**	**7 to 12 months**	**More than 24 months**
OHFA	$ 788,219		$788,219	
FHLMC	3,652,506			$3,652,506
FNMA	2,183,755			2,183,755
U.S. Treasury money market mutual funds	38,296	$ 38,296		
STAR Ohio	4,000,122	4,000,122		
Total	$10,662,898	$4,038,418	$788,219	$5,836,261

At December 31, 2011, the weighted average maturity of investments is 2.26 years.

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

Concentration of Credit Risk: The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2011:

Investment type	Fair Value	% of Total
OHFA	$ 788,219	7.39
FHLMC	3,652,506	34.25
FNMA	2,183,755	20.48
U.S. Treasury money market mutual funds	38,296	0.36
STAR Ohio	4,000,122	37.52
Total	$10,662,898	100.00

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

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of December 31, 2011:

Investment type	Fair Value
OHFA	$ 788,219
FHLMC	3,652,506
FNMA	2,183,755
U.S. Treasury money market mutual funds	$ 38,296

Cash and investments per statement of net assets	
Governmental activities	$11,258,204
Business-type activities	12,883,264
Agency funds	87,519
Total	$24,228,987

5. INTERFUND TRANSACTIONS

A. Transfers in and out consisted of the following, as reported in the fund financial statements for the year ended December 31, 2011:

Transfers out of general fund and into:	
Electric fund	$ 815,751
Non-major governmental funds	296,578
Transfers out of non-major governmental fund and into:	
Non-major governmental fund	2,195
Total	$1,114,524

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers between governmental funds are eliminated for reporting on the statement of activities. Transfers between governmental activities and business-type activities are reported as transfers on the statement of activities. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. The transfer within the non-major governmental funds was to transfer the balance of a capital projects fund to the related debt service fund.

B. Interfund loans receivable and payable consisted of the following, as reported in the fund financial statements for the year ended December 31, 2011:

Interfund loans receivable in the electric fund from:	
Non-major governmental fund	$214,480

Interfund loans between governmental funds are eliminated for reporting on the statement of net assets. Interfund loans between governmental and business-type activities are reported as a component of “internal balance” on the statement of net assets.

C. Due to/from other funds consisted of the following, as reported in the fund financial statements for the year ended December 31, 2011:

Due to general fund from:	
Electric fund	$64,579

These balances resulted from the time lag between the dates in which payments between the funds are made. Amounts due to/from other funds between governmental and business-type activities are reported as a component of “internal balance” on the statement of net assets. The due to general fund represents excise tax due to the general fund.

6. PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of St. Marys. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2011 was $3.32 per $1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

Real property	
Residential/agricultural	$ 95,957,130
Commercial/industrial/mineral	35,796,030
Public utility	
Real	9,320
Personal	313,250
Total assessed value	$132,075,730

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.

7. LOCAL INCOME TAX (Continued)

The City, by ordinance, allocates 1 percent of the income tax revenues to the general fund (0.72%), the street construction and maintenance fund (a non-major governmental fund) (0.18%), and the capital improvements fund (a non-major governmental fund) (0.10%). The other 0.5 percent is allocated to the voted income tax fund. For 2011, in the fund financial statements, income tax revenue credited to the general fund, voted income tax fund, capital improvements fund (a non-major governmental fund), and street construction and maintenance fund (a non-major governmental fund), totaled $1,911,194, $1,209,690, $223,690, and $416,341, respectively.

8. LOANS RECEIVABLE

Loans receivable represent low interest loans for development projects and home improvements granted to eligible City businesses and residents under the Community Development Block Grant (CDBG) program, a federal grant program which is accounted for in the CDBG fund (a non-major governmental fund). The loans have an annual interest rate of 2.75% - 4.50% and are repaid over periods ranging from five to thirty years.

A summary of loans receivable activity during 2011 follows:

Loans receivable:	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
Business loans	$1,099,198	$529,579	($118,961)	$1,509,816

9. NOTES RECEIVABLE

Notes receivable represent amounts issued to the Community Improvement Corporation of St. Marys (CIC) for the improvement of storefronts within the City that are being leased to outside entities, specifically the St. Marys City School District Board of Education. The CIC is charged with collecting lease payments from the lessee in order to repay the note principal to the City. The note was issued October 1, 2010 for $150,000, has an annual interest rate of 1.00% and is to be repaid on a quarterly basis over a 20 year period. At December 31, 2011 the amount owed to the City was $143,190.

A summary of notes receivable activity during 2011 follows:

Notes receivable:	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
Notes	$150,000	$0	($6,810)	$143,190

10. RECEIVABLES

Receivables at December 31, 2011 consisted of taxes, accounts (billings for user charged services), special assessments, loans, notes, accrued interest and intergovernmental receivables arising from grants, entitlements, and shared revenues. All intergovernmental receivables have been reported as “due from other governments” on the basic financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2011.

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

10. RECEIVABLES (Continued)

Receivables:	Governmental Activities	Business-type Activities
Income taxes	$ 652,566	
Real and other taxes	377,824	$ 66,925
Accounts	53,809	1,916,831
Special assessments	311,048	512
Loans	1,509,816	
Notes	143,190	
Accrued interest	17,698	
Due from other governments	362,067	7,399
Total	$3,428,018	$1,991,667

Receivables have been disaggregated on the face of the basic financial statements. The only receivables not expected to be collected within the subsequent year are special assessments, loans and notes. Special assessments will be collected over the life of the assessment. Loans and notes will be collected over the term of the respective loan and note agreements (See Note 8 and Note 9).

11. CAPITAL ASSETS

Governmental activities capital asset activity for the year ended December 31, 2011 was as follows:

Governmental Activities:	Balance 12/31/10	Additions	Disposals	Balance 12/31/11
Capital assets, not being depreciated:				
Land	$ 1,919,240			$ 1,919,240
Construction in progress	120,942	$ 75,024	($195,966)	
Total capital assets, not being depreciated	2,040,182	75,024	(195,966)	1,919,240
Capital assets, being depreciated:				
Land improvements	4,185,903	287,927		4,473,830
Buildings and improvements	1,412,873	264,404		1,677,277
Equipment and furniture	1,099,878	41,970		1,141,848
Vehicles	3,722,901	233,478	(143,255)	3,813,124
Infrastructure	22,018,336	629,947		22,648,283
Total capital assets, being depreciated	32,439,891	1,457,726	(143,255)	33,754,362
Less: accumulated depreciation:				
Land improvements	(1,156,073)	(166,119)		(1,322,192)
Buildings and improvements	(930,565)	(39,743)		(970,308)
Equipment and furniture	(645,288)	(60,425)		(705,713)
Vehicles	(2,474,864)	(229,864)	135,652	(2,569,076)
Infrastructure	(9,764,928)	(987,946)		(10,752,874)
Total accumulated depreciation	(14,971,718)	(1,484,097)	135,652	(16,320,163)
Total capital assets, net	$19,508,355	$48,653	($203,569)	$19,353,439

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

11. CAPITAL ASSETS (Continued)

Governmental Activities:	Depreciation Expense
General government	$ 37,771
Security of persons and property	202,120
Public health and welfare	6,815
Transportation	1,071,616
Community environment	49,617
Leisure time activities	113,158
Capital assets held by the internal service funds are charged to various functions based upon their usage of the capital assets	3,000
Total depreciation expense	$1,484,097

Business-type activities capital asset activity for the year ended December 31, 2011 was as follows:

Business-type Activities:	Balance 12/31/10	Additions	Disposals	Balance 12/31/11
Capital assets, not being depreciated:				
Land and easements	$1,194,470	$27,440		$1,221,910
Construction in progress		392,321		392,321
Total capital assets, not being depreciated	1,194,470	419,761		1,614,231
Capital assets, being depreciated:				
Land improvements	5,118,981	457,499		5,576,480
Buildings and improvements	16,662,456	-		16,662,456
Equipment and furniture	11,125,588	96,215		11,221,803
Vehicles	2,754,115	389,673		3,143,788
Infrastructure	19,780,385	105,810		19,886,195
Total capital assets, being depreciated	55,441,525	1,049,197		56,490,722
Less: accumulated depreciation:				
Land improvements	(3,005,370)	(201,615)		(3,206,985)
Buildings and improvements	(4,365,485)	(582,825)		(4,948,310)
Equipment and furniture	(9,125,979)	(282,120)		(9,408,099)
Vehicles	(2,158,240)	(132,654)		(2,290,894)
Infrastructure	(8,686,887)	(518,314)		(9,205,201)
Total accumulated depreciation	(27,341,961)	(1,717,528)		(29,059,489)
Total capital assets, net	$29,294,034	$(248,570)	$0	$29,045,464

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

Business-type Activities:	Depreciation Expense
Water fund	$ 246,269
Sewer fund	727,847
Electric fund	619,084
Refuse fund	124,328
Total depreciation expense	$1,717,528

12. 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, including sergeants, officers, and dispatchers, 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 as of December 31 of each year may not exceed forty hours for supervisors, sergeants and officers, and thirty-two hours for dispatchers. Upon termination of employment, employees are entitled to receive, in cash, any remaining balance of unused compensatory time.

13. LONG-TERM OBLIGATIONS

Governmental activities changes in long-term obligations for the year ended December 31, 2011 were as follows:

Governmental Activities:	**Balance 12/31/2010**	**Additions**	**Retirements**	**Balance 12/31/2011**	**Amount Due Within One Year**
Long-term obligations:					
Bond anticipation notes payable	$100,000	$ 95,000	$(100,000)	$ 95,000	$ 95,000
Compensated absences payable	403,482	100,320	(79,966)	423,836	94,121
Total long-term obligations	$503,482	$195,320	($179,966)	$518,836	$189,121

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

Bond anticipation notes - On April 22, 2010, the City entered into bond anticipation notes for $100,000 to finance the 2010 street program. The notes carried an interest rate of 2.48% and matured on April 22, 2011. On April 1, 2011, the City entered into bond anticipation notes for $95,000 to finance the 2011 street program. The notes carry an interest rate of 1.95% and mature on April 1, 2012. The bond anticipation notes are backed by the full faith and credit of the City and have a maturity of one year. In accordance with FASB Statement No. 6, "Classification of Short-Term Obligations Expected to Be Refinanced", the City's bond anticipation notes are reported as long-term obligations as the City has consummated refinancing on a long-term basis prior to the issuance of the financial statements.

Business-type activities changes in long-term obligations for the year ended December 31, 2011 were as follows:

13. LONG-TERM OBLIGATIONS (Continued)

Business-type Activities:	Interest Rate	Balance 12/31/10	Additions	Retirements	Balance 12/31/11	Amount Due Within One Year
General obligation bonds:						
OMEGA JV2 electric project	3.81%	$ 1,184,173		($ 93,638)	$ 1,090,535	$ 98,586
OWDA loan:						
Wastewater treatment plant	3.36%	10,995,707		(421,717)	10,573,990	436,006
Other long-term obligations:						
Compensated absences payable		401,085	$ 98,764	(84,876)	414,973	124,484
AMP-Ohio stranded cost payable			2,664,281		2,664,281	180,000
Landfill closure/post-closure liability		3,079,980		(107,340)	2,972,640	
Total other long-term obligations		3,481,065	2,763,045	(192,216)	6,051,894	304,484
Total long-term obligations		$15,660,945	$2,763,045	($707,571)	$17,716,419	$839,076

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

See Note 19 for detail of landfill closure/post-closure costs.

General obligation bonds - The general obligation bonds were issued in order to provide the financial resources for the OMEGA JV2 project (see Note 2.A). The proceeds of this issuance were combined with the general obligation bond issuance proceeds of the other participants in the OMEGA JV2 project, and were used for the acquisition, construction, and equipping of OMEGA JV2. The bonds were issued during 2001, mature in 2020, and carry an interest rate of 3.81%. Principal and interest payments are paid out of the electric fund. The bonds are supported by the full faith and credit of the City, and are being retired through electric use charges and other operating revenues of the electric fund.

OWDA loan - The City has pledged future sewer revenues to repay an Ohio Water Development Authority (OWDA) loan related to the construction of a new wastewater treatment plant. The loan is payable solely from sewer fund revenues and is payable through 2029 at an interest rate of 3.36%. Annual principal and interest payments on the loan are expected to require 103.79% of net revenues and 38.98% of total revenues. The total principal and interest remaining to be paid on the loan is $14,177,877. Principal and interest paid for the current year was $787,660, total net revenues were $758,880 and total revenues were $2,020,585. The loan is supported by the full faith and credit of the City.

A. AMP-Ohio Stranded Cost Payable

1. American Municipal Power Generating Station Project

The City of St. Marys is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The City executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

13. LONG-TERM OBLIGATIONS (Continued)

2. History of the AMPGS Project

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a $3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center (“AFEC”) at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2011, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified $34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2011 AMP has a regulatory asset of $86,548,349 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

AMP has consistently communicated with the AMPGS participants as to the risks and uncertainties with respect to the outstanding potential liability the City has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant’s information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure.

13. LONG-TERM OBLIGATIONS (Continued)

AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

Based on an allocation to St. Marys of 21,000 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the City of St. Marys has a potential stranded cost obligation of $3,434,660 for the AMPGS Project. The City of St. Marys does not have any payments on deposit with AMP at December 31, 2011.

3. AMP Fremont Energy Center (AFEC) Development Fee

The AFEC Development Fee is the amount paid by AFEC participants to the AMPGS project as a Development Fee in August, 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC Participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board. The City is a participant in the AFEC project and has received a credit to reduce its share of AMPGS potential stranded costs as noted below.

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the City receives a credit of $737,584 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 7,045 and the total kW share of those participating in both projects. The City has reduced the stranded costs liability by the amount of this credit.

B. Recording of Stranded Costs

The City has recorded stranded costs for the AMPGS Project. The City has chosen to record the potential stranded costs identified by AMP's memos as a current operating expense in the Contractual Services line item. as of December 31, 2011. Even with booking this expense in 2011, the City still met its debt covenant obligation(s) with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5/6/2. Please see footnote 2A regarding OMEGA JV2.

In making its determination as to how to proceed with the accounting treatment for the potential AMPGS Project liability, the City has relied upon its City Law Director, information provided by AMP and its legal counsel with respect to the data, as well as the City's management. The City plans to repay the debt obligation through current resources.

At December 31, 2011, the principal and interest requirements to retire the business-type activities long-term bonds and OWDA loan are as follows:

13. LONG-TERM OBLIGATIONS (Continued)

Year	General Obligation Bonds			OWDA Loan		
Ended	Principal	Interest	Total	Principal	Interest	Total
2012	$ 98,586	$ 53,871	$ 152,457	$ 436,006	$ 351,654	$ 787,660
2013	103,725	48,695	152,420	450,779	336,881	787,660
2014	109,054	43,249	152,303	466,052	321,608	787,660
2015	114,763	37,524	152,287	481,843	305,817	787,660
2016	120,853	31,499	152,352	498,169	289,491	787,660
2017 - 2021	543,554	66,039	609,593	2,755,762	1,182,537	3,938,299
2022 - 2026				3,255,346	682,952	3,938,298
2027 - 2029				2,230,033	132,947	2,362,980
Total	$1,090,535	$280,877	$1,371,412	$10,573,990	$3,603,887	$14,177,877

C. Legal Debt Margins

At December 31, 2011, the City had a legal voted debt margin of $13,690,779 and a legal unvoted debt margin of $7,264,165.

14. RISK MANAGEMENT

A. Risk Pool Membership

Prior to 2009, the City belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and,
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven members that include appointed and elected officials from member organizations.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.50% (40.00% through October 31, 2011 and 17.50% through October 31, 2010) of the premium and losses on the first $250,000 casualty treaty and 10% of the first $1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 782 and 761 members as of December 31, 2011 and 2010, respectively. The City participates in this coverage.

14. RISK MANAGEMENT (Continued)

The Plan formed the Ohio Plan Healthcare Consortium ("OPHC"), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 74 and 65 members as of December 31, 2011 and 2010, respectively. The City does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and members' equity at December 31, 2011 for both OPRM and OPHC:

	2011		2010	
	OPRM	**OPHC**	**OPRM**	**OPHC**
Assets	$12,501,280	$1,459,791	$12,036,541	$1,355,131
Liabilities	(5,328,761)	(1,283,527)	(4,845,056)	(1,055,096)
Members' Equity	$ 7,172,519	$ 176,264	$7,191,485	$ 300,035

You can read the complete audited financial statements for OPRM and OPHC at the Plan's website, www.ohioplan.org.

B. 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 for the following coverage and deductibles:

Type of Coverage	Coverage	Deductible
General Liability	$6,000,000	$ 0
Law Enforcement Liability	6,000,000	5,000
Public Officials Liability	6,000,000	5,000
Employers Liability	6,000,000	0
Employee Benefits Liability	6,000,000	0
Automobile Fleet Liability	6,000,000	1,000
Buildings and Contents	81,185,163	1,000
Boiler and Machinery	40,000,000	Various
Inland Marine and Equipment	3,278,542	1,000

14. RISK MANAGEMENT (Continued)

There were no significant reductions in insurance coverage from 2010 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.

C. Employee Medical Benefits

The City has elected to provide employee group health insurance benefits through a fully insured program with The Ohio Plan. Employees have a choice of two insurance plans, which are a traditional PPO plan and a health savings account (HSA) plan.

The monthly premiums for the PPO plan are $494.00 for single coverage and $1,174.00 for family coverage, and the employee share ranges from 18% to 29% of the premium amount. The PPO plan has an in-network deductible of $0 for both single and family coverage. Maximum out-of-pocket limits for the PPO plan are $1,500 per year for single coverage and $3,000 per year for family coverage. The PPO plan has a maximum lifetime coverage limit of $5,000,000.

The monthly premiums for the HSA plan are $467.00 for single coverage and $1,109.00 for family coverage, and the employee share ranges from 11% to 27% of the premium amount. The HSA plan has an in-network deductible of $1,500 for single coverage and $3,000 for family coverage. Maximum out-of-pocket limits for the HSA plan are equal to the in-network deductibles, $1,500 per year for single coverage and $3,000 per year for family coverage. The HSA plan has a maximum lifetime coverage limit of $5,000,000.

D. Workers' Compensation

For 2011, the City participated in the Ohio Municipal League 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, Inc. 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.

15. PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were $343,441, $309,339, and $281,981, respectively; 100% has been contributed for 2011, 2010 and 2009. Contributions to the member-directed plan for 2011 were $700 made by the City and $500 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

15. PENSION PLANS (Continued)

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were $116,848 and $130,764 for the year ended December 31, 2011, $115,008 and $126,806 for the year ended December 31, 2010, and $111,325 and $125,202, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 74.47% has been contributed for police and 74.17% has been contributed for firefighters for 2011.

16. POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

16. POSTRETIREMENT BENEFIT PLANS (Continued)

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were $138,893, $175,720, and $203,858, respectively; 100% has been contributed for 2011, 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One account is for health care benefits under an Internal Revenue Code Section 115 trust and the other account is for Medicare Part B reimbursements administered as an Internal Revenue Code Section 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

16. POSTRETIREMENT BENEFIT PLANS (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were $61,861 and $51,169 for the year ended December 31, 2011, $60,886 and $49,620 for the year ended December 31, 2010, and $58,937 and $48,992, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 74.47% has been contributed for police and 74.17% has been contributed for firefighters for 2011.

17. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The statement of revenues, expenditures and changes in fund balance - budget 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 the GAAP basis are that:

(a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

(b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

(c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to restricted, assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

(d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);

(e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,

(f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

17. BUDGETARY BASIS OF ACCOUNTING (Continued)

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 all governmental funds for which a budgetary basis statement is presented:

Net Change in Fund Balance

	General fund
Budget basis	($537,236)
Net adjustment for revenue accruals	11,627
Net adjustment for expenditure accruals	(10,227)
Adjustment for encumbrances	177,615
GAAP basis	($358,221)

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a GAAP basis. This includes the unclaimed monies fund.

18. RESTRICTED ASSETS

Refundable electric customer deposits are presented as restricted assets on the proprietary fund statement of net assets. The City also has permissive tax monies on deposit with Auglaize County in the amount of $9,371 (cash with fiscal agent). At December 31, 2011, restricted assets for business-type activities were as follows:

Restricted assets:	**Electric fund**
Cash and cash equivalents:	
Refundable cash deposits	$346,761

19. LANDFILL CLOSURE/POST-CLOSURE 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 post-closure costs will be paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and post-closure costs as an operating expense in each period based on landfill capacity used as of each year end.

The City is in the process of closing the landfill. The landfill closure and post-closure liability of $2,972,640 at December 31, 2011 represents the cumulative amount for closure and post-closure care. The amounts are based on what it would cost to perform all closure and post-closure care in 2011. 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 post-closure 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.

20. CONTRACTUAL COMMITMENTS

At December 31, 2011, the City had the following contractual commitments:

Contractor	Contract Amount	Amount Paid	Contract Balance
American Municipal Power-Ohio	$15,086,161	$12,605,688	$2,480,473
Arcadis FPS, Inc.	106,300	11,714	94,586
Bowman Construction, Inc.	201,966	187,512	14,454
Buschur Electric, Inc.	153,351		153,351
Celina Landfill	570,000	545,623	24,377
Kohli & Kaliher Associates	147,358	97,160	50,198
Miami & Erie Contractors, Inc.	238,700	233,529	5,171
Myers Controlled Power, LLC.	412,891	41,289	371,602
Ohio Plan	928,561	830,741	97,820
PAB Construction Company	1,073,960	1,014,272	59,688
Shinn Bros, Inc.	528,857	254,266	274,591
Winelco	416,152		416,152
Total contractual commitments	$19,864,257	$15,821,794	$4,042,463

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 are 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, 2011.

B. Litigation

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

22. OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

Fund	Year-End Encumbrances
General fund	$169,749
Voted income tax fund	124,964
Other governmental	59,243
Total	$353,956

23. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Voted Income Tax Fund	Non-major Governmental Funds	Total Governmental Funds
Non-spendable:				
Prepayments	$ 46,691		$ 7,106	$ 53,797
Materials and supplies inventory	30,413		17,594	48,007
Unclaimed monies	2,652			2,652
Total non-spendable	79,756		24,700	104,456
Restricted:				
Capital projects		$3,012,343	235,763	3,248,106
Transportation projects			1,271,375	1,271,375
Community improvements			2,053,401	2,053,401
Other purposes			20,073	20,073
Total restricted		3,012,343	3,580,612	6,592,955
Committed:				
Capital projects			2,516,871	2,516,871
Leisure time activity			74,042	74,042
Total committed			2,590,913	2,590,913
Assigned:				
General government	44,638			44,638
Security of persons and property	106,686			106,686
Public health and welfare	2,500			2,500
Community environment	4,060			4,060
Leisure time activity	9,914			9,914
Subsequent year's appropriations	2,419,491			2,419,491
Total assigned	2,587,289			2,587,289
Unassigned (deficit)	1,364,291		(260,738)	1,103,553
Total fund balances	$4,031,336	$3,012,343	$5,935,487	$12,979,166

24. SIGNIFICANT SUBSEQUENT EVENT

The City issued bond anticipation notes on April 1, 2012 in the amount of $59,000 that mature on April 1, 2013. These bond anticipation notes were used to refund a portion of the bond anticipation notes issued on April 1, 2011.

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of St. Marys
Auglaize County
101 E. Spring Street
St. Marys, Ohio 45885

To the Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys, Auglaize County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 27, 2012, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* We also noted that City restated City restated the December 31, 2011 General Fund budgetary balance. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 27, 2012.

We intend this report solely for the information and use of management, Council and others within the City. We intend it for no one other than these specified parties.

Dave Yost
Auditor of State

September 27, 2012

Dave Yost • Auditor of State

CITY OF ST. MARY'S

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
NOVEMBER 8, 2012

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