

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

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE YEAR ENDED
DECEMBER 31, 2016

DOUG RIESEN, FINANCE DIRECTOR



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of St. Marys, Auglaize County, prepared by Julian & Grube, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 13, 2017

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

City of St. Marys
Stark County
101 East Spring Street
St. Marys, Ohio 45885

To the Mayor and Members of Council:

Report on the Financial Statements

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, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of St. Marys' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City of St. Marys' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City of St. Marys' internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liability/net pension asset and pension contributions 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017, on our consideration of the City of St. Marys' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of St. Marys' internal control over financial reporting and compliance.



Julian & Grube, Inc.
June 23, 2017

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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, 2016. 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 2016 are as follows:

- The total net position of the City increased \$487,920 from 2015 net position. Net position of governmental activities increased \$178,539 or 0.68% from 2015, and net position of business-type activities increased \$309,381 or 1.39% from 2015.
- General revenues accounted for \$6,509,396 or 80.43% of total governmental activities revenue. Program specific revenues accounted for \$1,583,535 or 19.57% of total governmental activities revenue.
- The City had \$7,706,449 in expenses related to governmental activities; \$1,583,535 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$6,122,914 were offset by general revenues (primarily property taxes, income taxes, and unrestricted grants and entitlements) of \$6,509,396. The governmental activities also had transfers out totaling \$207,943.
- The City's major governmental funds include the general fund and the voted income tax fund. The general fund had revenues of \$4,908,799 in 2016. The expenditures and other financing uses of the general fund totaled \$4,541,168 in 2016. The general fund's decrease in nonspendable inventory totaled \$6,086 in 2016. The net increase in fund balance for the general fund was \$367,631 or 13.89%.
- The voted income tax fund had revenues of \$1,516,057 in 2016. The expenditures of the voted income tax fund totaled \$2,831,575 in 2016. The net decrease in fund balance for the voted income tax fund was \$1,315,518 or 46.19%.
- Net position for the business-type activities, which are made up of the water, sewer, electric, and refuse enterprise funds, increased in 2016 by \$309,381.
- In the general fund, the actual revenues and other financing sources were \$450,727 less than the final budgeted amounts, and actual expenditures and other financing uses were \$1,546,927 less than the final budgeted amounts. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources decreased \$250,620 from the original to the final budget. Budgeted expenditures and other financing uses increased \$215,016 from the original to the final budget.

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 position 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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Reporting the City as a Whole

Statement of Net Position 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 the City perform financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 position and changes in net position. This change in net position 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 position 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.

The City's statement of net position and statement of activities can be found on pages 21-23 of this report.

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 12.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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 24-28 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric, and refuse functions. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 30-37 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 38 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 39-89 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 90-96 of this report.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole.

Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Assets</u>						
Current and other assets	\$ 11,706,825	\$ 12,705,905	\$ 14,132,919	\$ 12,469,411	\$ 25,839,744	\$ 25,175,316
Capital assets, net	<u>21,472,117</u>	<u>19,951,152</u>	<u>31,599,504</u>	<u>26,881,081</u>	<u>53,071,621</u>	<u>46,832,233</u>
Total assets	<u>33,178,942</u>	<u>32,657,057</u>	<u>45,732,423</u>	<u>39,350,492</u>	<u>78,911,365</u>	<u>72,007,549</u>
<u>Deferred outflows of resources</u>						
Pension	<u>1,959,836</u>	<u>794,617</u>	<u>1,175,969</u>	<u>382,000</u>	<u>3,135,805</u>	<u>1,176,617</u>
Total deferred outflows of resources	<u>1,959,836</u>	<u>794,617</u>	<u>1,175,969</u>	<u>382,000</u>	<u>3,135,805</u>	<u>1,176,617</u>
<u>Liabilities</u>						
Other liabilities	196,194	205,780	7,462,993	1,543,134	7,659,187	1,748,914
Long-term liabilities:						
Due within one year	81,579	89,433	1,004,238	899,069	1,085,817	988,502
Net pension liability	7,285,252	6,142,458	3,061,575	2,211,788	10,346,827	8,354,246
Other amounts	<u>331,545</u>	<u>354,084</u>	<u>12,766,430</u>	<u>12,857,623</u>	<u>13,097,975</u>	<u>13,211,707</u>
Total liabilities	<u>7,894,570</u>	<u>6,791,755</u>	<u>24,295,236</u>	<u>17,511,614</u>	<u>32,189,806</u>	<u>24,303,369</u>
<u>Deferred Inflows of Resources</u>						
Property taxes	352,955	355,267	-	-	352,955	355,267
Pension	<u>431,712</u>	<u>23,650</u>	<u>122,846</u>	<u>39,949</u>	<u>554,558</u>	<u>63,599</u>
Total deferred inflows of resources	<u>784,667</u>	<u>378,917</u>	<u>122,846</u>	<u>39,949</u>	<u>907,513</u>	<u>418,866</u>
<u>Net Position</u>						
Net investment in capital assets	21,386,117	19,901,152	17,416,385	17,229,864	38,802,502	37,131,016
Restricted	5,171,154	6,487,874	-	-	5,171,154	6,487,874
Unrestricted (deficit)	<u>(97,730)</u>	<u>(108,024)</u>	<u>5,073,925</u>	<u>4,951,065</u>	<u>4,976,195</u>	<u>4,843,041</u>
Total net position	<u>\$ 26,459,541</u>	<u>\$ 26,281,002</u>	<u>\$ 22,490,310</u>	<u>\$ 22,180,929</u>	<u>\$ 48,949,851</u>	<u>\$ 48,461,931</u>

The City has adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2016, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$48,949,851. At year end, net position was \$26,459,541 and \$22,490,310 for the governmental activities and the business-type activities, respectively.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Capital assets reported on the government-wide statements represent the largest portion of the City's net position. At year end, capital assets represented 67.25% of total assets. Capital assets include land, construction in progress, easements, land improvements, buildings and improvements, equipment and furniture, vehicles, and infrastructure, and total \$21,386,117 and \$17,416,385 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 net investment in capital assets is reported net of related long-term obligations, it should be noted that the resources to repay debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net position, \$5,171,154, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position is a deficit of \$97,730.

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**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The table below shows the changes in net position for 2016 and 2015.

	Changes in Net Position					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 1,080,076	\$ 933,442	\$ 22,982,076	\$ 18,532,224	\$ 24,062,152	\$ 19,465,666
Operating grants and contributions	392,686	401,337	30,450	31,257	423,136	432,594
Capital grants and contributions	110,773	108,181	414,671	-	525,444	108,181
Total program revenues	<u>1,583,535</u>	<u>1,442,960</u>	<u>23,427,197</u>	<u>18,563,481</u>	<u>25,010,732</u>	<u>20,006,441</u>
General revenues:						
Property taxes	1,187,006	1,274,993	-	-	1,187,006	1,274,993
Income taxes	4,758,608	4,756,305	-	-	4,758,608	4,756,305
Grants and entitlements not restricted	321,988	288,430	10,991	5,451	332,979	293,881
Investment earnings	114,274	140,793	19,369	12,249	133,643	153,042
Change in fair value of investments	(52,744)	(18,022)	-	-	(52,744)	(18,022)
Miscellaneous	180,264	125,621	343,358	334,621	523,622	460,242
Total general revenues	<u>6,509,396</u>	<u>6,568,120</u>	<u>373,718</u>	<u>352,321</u>	<u>6,883,114</u>	<u>6,920,441</u>
Total revenues	<u>8,092,931</u>	<u>8,011,080</u>	<u>23,800,915</u>	<u>18,915,802</u>	<u>31,893,846</u>	<u>26,926,882</u>
Expenses						
General government	1,188,870	1,043,514	-	-	1,188,870	1,043,514
Security of persons and property	3,945,300	3,518,708	-	-	3,945,300	3,518,708
Public health and welfare	35,524	38,989	-	-	35,524	38,989
Transportation	2,005,618	1,987,482	-	-	2,005,618	1,987,482
Community environment	68,496	74,591	-	-	68,496	74,591
Leisure time activity	456,709	432,910	-	-	456,709	432,910
Interest and fiscal charges	5,932	5,912	-	-	5,932	5,912
Water	-	-	1,816,756	1,559,730	1,816,756	1,559,730
Sewer	-	-	2,614,718	2,270,107	2,614,718	2,270,107
Electric	-	-	18,471,954	16,349,279	18,471,954	16,349,279
Refuse	-	-	796,049	835,089	796,049	835,089
Total expenses	<u>7,706,449</u>	<u>7,102,106</u>	<u>23,699,477</u>	<u>21,014,205</u>	<u>31,405,926</u>	<u>28,116,311</u>
Increase (decrease) in net position before transfers	386,482	908,974	101,438	(2,098,403)	487,920	(1,189,429)
Transfers	<u>(207,943)</u>	<u>(852,730)</u>	<u>207,943</u>	<u>852,730</u>	<u>-</u>	<u>-</u>
Change in net position	178,539	56,244	309,381	(1,245,673)	487,920	(1,189,429)
Net position at beginning of year	<u>26,281,002</u>	<u>26,224,758</u>	<u>22,180,929</u>	<u>23,426,602</u>	<u>48,461,931</u>	<u>49,651,360</u>
Net position at end of year	<u>\$ 26,459,541</u>	<u>\$ 26,281,002</u>	<u>\$ 22,490,310</u>	<u>\$ 22,180,929</u>	<u>\$ 48,949,851</u>	<u>\$ 48,461,931</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Governmental Activities

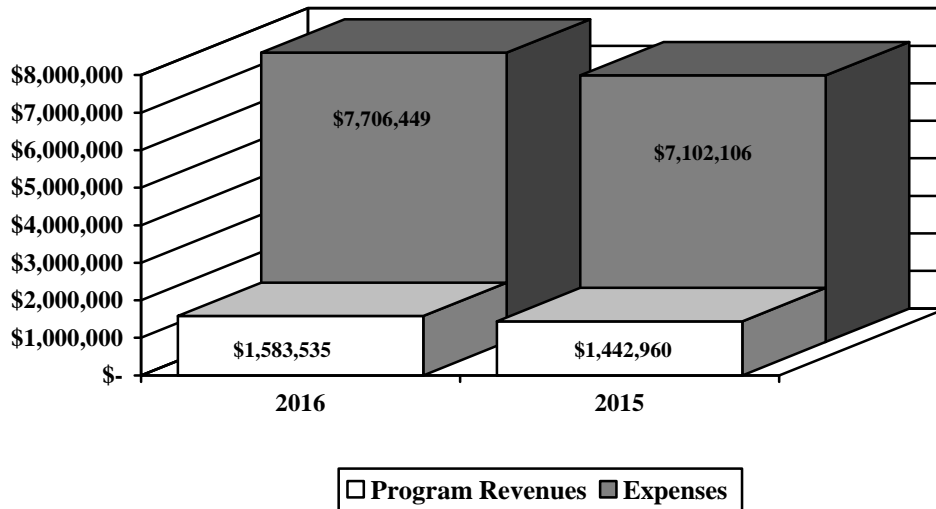
Overall, governmental activities net position increased \$178,539 in 2016. Security of persons and property, which primarily supports the operations of the police and fire departments, accounted for \$3,945,300 of the total expenses of the City. These expenses were partially funded by \$608,394 in direct charges to users of the services. Transportation expenses totaled \$2,005,618 and were partially funded by \$104,738 in direct charges to users of the services, \$365,464 in operating grants and contributions, and \$110,773 in capital grants and contributions.

The State and federal government contributed to the City a total of \$392,686 in operating grants and contributions and \$110,773 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$365,464 subsidized transportation programs and \$27,222 subsidized community environment expenses. Of the total capital grants and contributions, \$110,773 subsidized transportation programs.

General revenues totaled \$6,509,396 or 80.43% of total governmental activities revenues. These revenues primarily consist of property and income tax revenue of \$5,945,614. Another primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$321,988 or 4.95% of the governmental activities general revenues.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following graph and table show, for governmental activities, the total cost of services and the net cost of services for 2016 and 2015. That is, it identifies the cost of these services supported by tax revenue, unrestricted State grants and entitlements, and other general revenues. 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



**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

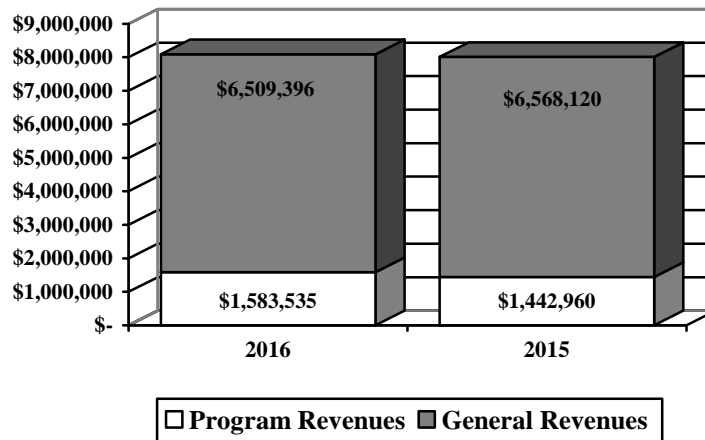
Governmental Activities

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
Program expenses:				
General government	\$ 1,188,870	\$ 954,779	\$ 1,043,514	\$ 828,411
Security of persons and property	3,945,300	3,336,906	3,518,708	2,939,160
Public health and welfare	35,524	29,570	38,989	32,137
Transportation	2,005,618	1,424,643	1,987,482	1,485,757
Community environment	68,496	37,917	74,591	48,258
Leisure time activity	456,709	333,167	432,910	319,511
Interest and fiscal charges	<u>5,932</u>	<u>5,932</u>	<u>5,912</u>	<u>5,912</u>
Total expenses	<u>\$ 7,706,449</u>	<u>\$ 6,122,914</u>	<u>\$ 7,102,106</u>	<u>\$ 5,659,146</u>

The dependence upon general revenues for governmental activities is apparent, with 79.45% of expenses supported through taxes and other general revenues.

The graph below illustrates the City's program revenues versus general revenues for 2016 and 2015.

Governmental Activities - General and Program Revenues



Business-type Activities

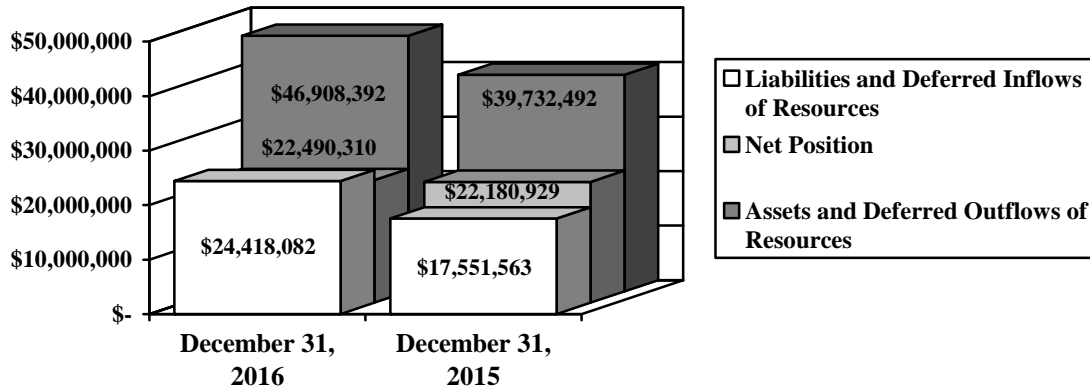
Business-type activities include the water, sewer, electric, and refuse enterprise funds. These programs had program revenues of \$23,427,197, general revenues of \$373,718, transfers in of \$207,943, and expenses of \$23,699,477 for 2016. Overall, the operating activities of all the City's enterprise funds remained comparable to the prior year.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The graph below illustrates the assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position of the City's business-type activities at December 31, 2016 and December 31, 2015.

Net Position of 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 reported a combined fund balance of \$10,148,938, which is \$994,796 less than last year's total of \$11,143,734. The table below indicates the fund balances and the total change in fund balances as of December 31, 2016 and December 31, 2015 for all major and nonmajor governmental funds.

	<u>Fund Balances December 31, 2016</u>	<u>Fund Balances December 31, 2015</u>	<u>Increase/ (Decrease)</u>
Major funds:			
General	\$ 3,008,124	\$ 2,646,579	\$ 361,545
Voted income tax	1,532,532	2,848,050	(1,315,518)
Nonmajor governmental funds	<u>5,608,282</u>	<u>5,649,105</u>	<u>(40,823)</u>
Total	<u>\$ 10,148,938</u>	<u>\$ 11,143,734</u>	<u>\$ (994,796)</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

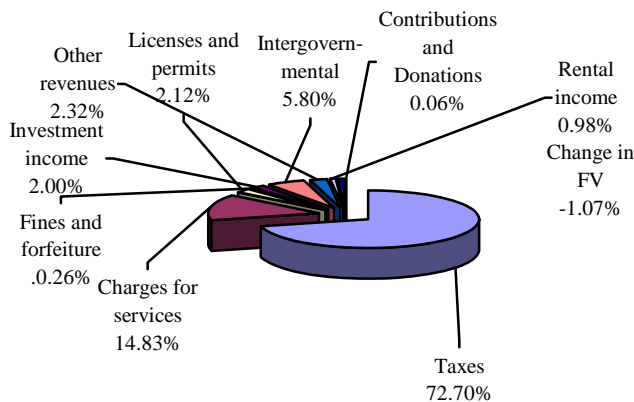
General Fund

The City's general fund balance increased \$361,545. The table that follows assists in illustrating the revenues of the general fund for 2016 and 2015.

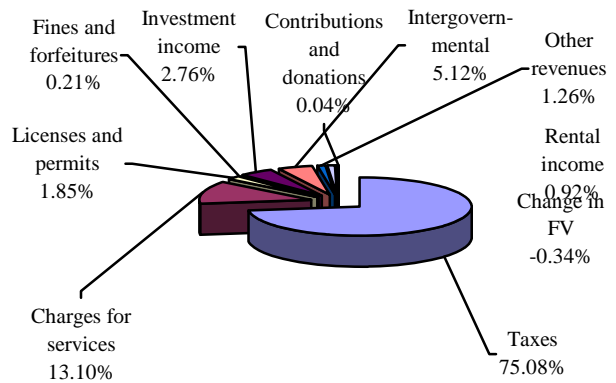
	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Percentage Change</u>
Revenues			
Taxes	\$ 3,568,709	\$ 3,968,454	(10.07) %
Charges for services	727,829	692,217	5.14 %
Licenses and permits	104,310	97,782	6.68 %
Fines and forfeitures	12,730	11,291	12.74 %
Intergovernmental	284,822	270,417	5.33 %
Investment income	98,370	145,985	(32.62) %
Change in fair value of investments	(52,744)	(18,022)	(192.66) %
Rental income	47,883	48,602	(1.48) %
Contributions and donations	3,221	2,540	26.81 %
Other	<u>113,669</u>	<u>66,585</u>	<u>70.71 %</u>
Total	<u>\$ 4,908,799</u>	<u>\$ 5,285,851</u>	<u>(7.13) %</u>

Overall revenues of the general fund decreased \$377,052 or 7.13%. Tax revenue decreased \$399,745 or 10.07% mainly due to a decrease in income taxes. The general fund reported a decrease in fair value of investments during 2016 of \$52,744 due to the decreasing value of federal agency securities within the City's investment portfolio. Other revenues increased \$47,084 or 70.71%, which is primarily due to refunds and reimbursements received from the Ohio Bureau of Workers' Compensation and Auglaize County.

Revenues - 2016



Revenues - 2015



**CITY OF ST. MARYS
AUGLAIZE COUNTY**

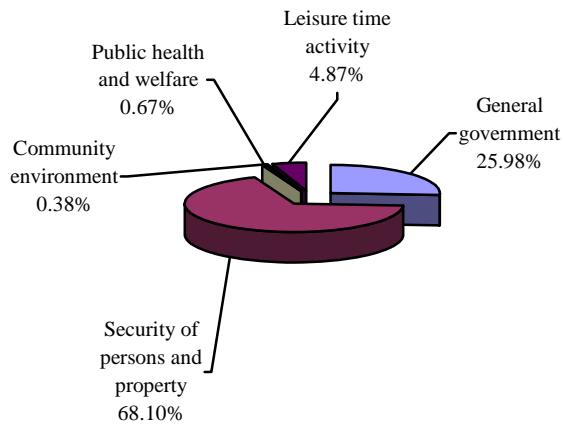
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The table that follows assists in illustrating the expenditures of the general fund for 2016 and 2015.

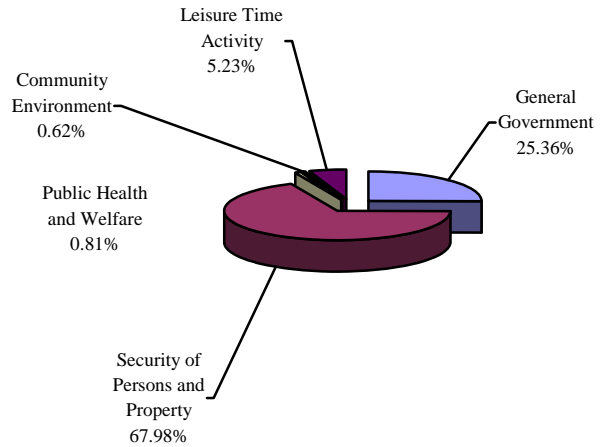
	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 1,048,513	\$ 970,420	8.05 %
Security of persons and property	2,749,169	2,601,623	5.67 %
Public health and welfare	26,955	30,821	(12.54) %
Community environment	15,198	23,879	(36.35) %
Leisure time activity	<u>196,590</u>	<u>200,160</u>	<u>(1.78) %</u>
Total	<u>\$ 4,036,425</u>	<u>\$ 3,826,903</u>	<u>5.47 %</u>

Overall expenditures of the general fund increased \$209,522 or 5.47%. Security of persons and property expenditures increased \$147,546 or 5.67% primarily due to increased costs attributable to both the police department and fire department during 2016. All other general fund expenditures remained comparable to the prior year.

Expenditures - 2016



Expenditures - 2015



Voted Income Tax Fund

The voted income tax fund had revenues of \$1,516,057 in 2016. The expenditures of the voted income tax fund totaled \$2,831,575 in 2016. The net decrease in fund balance for the voted income tax fund was \$1,315,518 or 46.19%.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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.

In the general fund, the actual revenues and other financing sources were \$450,727 less than the final budgeted amounts, and actual expenditures and other financing uses were \$1,546,927 less than the final budgeted amounts. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources decreased \$250,620 from the original to the final budget. Budgeted expenditures and other financing uses increased \$215,016 from the original to the final budget.

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 \$2,007,501 in 2016. The operating expenses of the water fund totaled \$1,800,750 in 2016. The water fund had nonoperating revenues and expenses of \$372 and \$16,873, respectively, in 2016. The increase in net position for the water fund was \$190,250 or 4.04%.

Sewer Fund

The sewer fund had operating revenues of \$2,237,218 in 2016. The operating expenses of the sewer fund totaled \$2,340,497 in 2016. The sewer fund had nonoperating revenues of \$379 and nonoperating expenses of \$275,110 in 2016. The sewer fund also received capital contributions of \$414,671. The increase in net position for the sewer fund was \$36,661 or 0.54%.

Electric Fund

The electric fund had operating revenues of \$18,103,151 in 2016. The operating expenses of the electric fund totaled \$18,291,317 in 2016. The electric fund had nonoperating revenues of \$28,695 and nonoperating expenses of \$181,851 in 2016. The electric fund also received transfers in of \$207,943. The decrease in net position for the electric fund was \$133,379 or 1.38%.

Refuse Fund

The refuse fund had operating revenues of \$977,564 in 2016. The operating expenses of the refuse fund totaled \$798,252 in 2016. The refuse fund had nonoperating revenues of \$31,364 in 2016. The increase in net position for the refuse fund was \$210,676 or 22.68%.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Capital Assets and Debt Administration

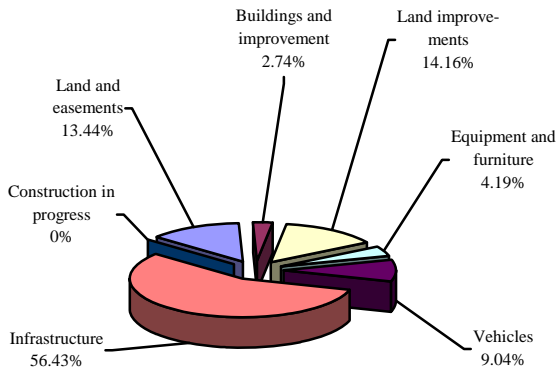
Capital Assets

At the end of 2016, the City had \$53,071,621 (net of accumulated depreciation) invested in land, construction in progress, easements, land improvements, buildings and improvements, equipment and furniture, vehicles, and infrastructure. Of this total, \$21,472,117 was reported in governmental activities and \$31,599,504 was reported in business-type activities. The following table shows December 31, 2016 balances compared to December 31, 2015.

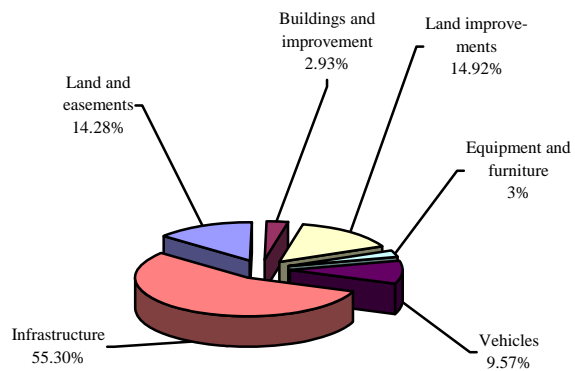
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and easements	\$ 2,886,604	\$ 2,849,443	\$ 1,221,910	\$ 1,221,910	\$ 4,108,514	\$ 4,071,353
Construction in progress	-	-	5,468,463	-	5,468,463	-
Land improvements	3,039,690	2,976,246	3,277,516	3,563,878	6,317,206	6,540,124
Buildings and improvements	588,001	585,142	9,071,852	9,488,259	9,659,853	10,073,401
Equipment and furniture	899,681	597,668	1,690,597	1,891,337	2,590,278	2,489,005
Vehicles	1,940,885	1,909,694	1,130,122	1,116,335	3,071,007	3,026,029
Infrastructure	12,117,256	11,032,959	9,739,044	9,599,362	21,856,300	20,632,321
Total	\$ 21,472,117	\$ 19,951,152	\$ 31,599,504	\$ 26,881,081	\$ 53,071,621	\$ 46,832,233

The following graphs show the breakdown of governmental activities capital assets by category at December 31, 2016 and December 31, 2015.

**Capital Assets - Governmental Activities
2016**



**Capital Assets - Governmental Activities
2015**

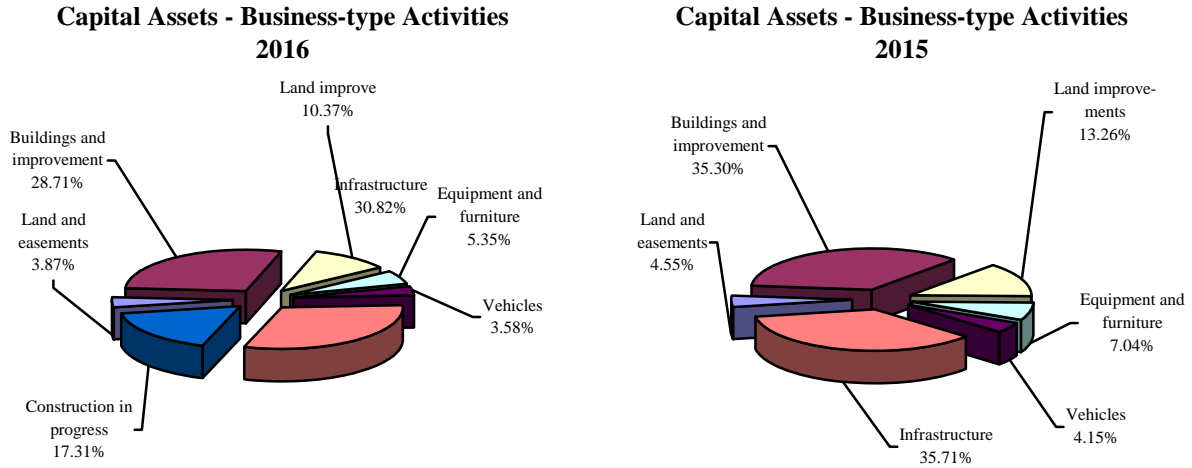


The City's largest governmental activities capital asset category is infrastructure, which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, street lighting, and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 58% of the City's total governmental activities capital assets.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The following graphs show the breakdown of business-type activities capital assets by category at December 31, 2016 and December 31, 2015.



The City's largest business-type activities capital asset categories are buildings and improvements and infrastructure. The buildings and improvements asset category represents approximately 36% of the City's total business-type activities 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 activities 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, 2016 and December 31, 2015.

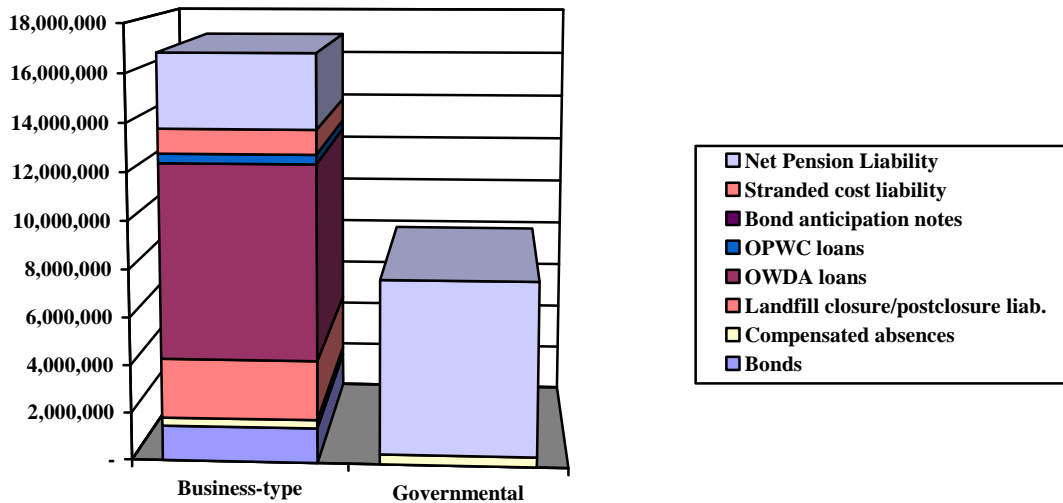
	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Net pension liability	\$ 7,285,252	\$ 6,142,458
Compensated absences	<u>413,124</u>	<u>443,517</u>
Total long-term obligations	<u>\$ 7,698,376</u>	<u>\$ 6,585,975</u>
	<u>Business-type Activities</u>	
General obligation bonds	\$ 1,463,554	\$ 664,407
Stranded cost liability	1,004,925	1,181,766
OWDA loans	8,086,226	8,739,310
OPWC loans	392,482	247,500
Landfill closure/postclosure liability	2,476,891	2,596,625
Net pension liability	3,061,575	2,211,788
Compensated absences	<u>346,590</u>	<u>327,084</u>
Total long-term obligations	<u>\$ 16,832,243</u>	<u>\$ 15,968,480</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

Long-term Obligations



Additional information on the City's debt administration can be found in Note 14.

Economic Conditions and Outlook

The industrial base in the City has been greatly diversified over the past 30 years primarily due to the success of several Japanese companies that started production in the City during the late 1980s.

Setex was the first Japanese company to call the City its home when it started the production of automobile seats for Honda in 1988. For almost 30 years, Setex has experienced significant growth with employment levels increasing from the initial 65 employees to the current 520+ employees. Setex also increased production capacity significantly by first doubling the size of their initial plant and later constructing a new weld facility for the production of seat frames for a variety of automobiles. Setex currently produces about 7,000 frames per day. Setex continues to manage multiple lines for Honda. The company is adding employees for summer production and is currently evaluating future expansion opportunities.

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 current 600 employees. With product demand back to pre-recession levels, AAP St. Marys is experiencing continued growth. The company is currently evaluating plans to expand. AAP St. Marys is a key to the stability of the industrial base in the City.

Veyance Technologies, Inc., formerly the Goodyear Tire & Rubber Company, was acquired by the German company Continental AG in order to expand its share of the industrial rubber track market. The plant is now a part of the company's ContiTech industrial rubber track division. The primary product of the plant for many years has been 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 plant currently employs approximately 400 and is still exploring the potential for major capital investments in machinery and equipment over the next few years.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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 100 employees in St. Marys. The company constructed its 130,000± square-foot St. Marys facility 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 140. The company completed construction of an addition to its existing plant in 2015 and is making significant investments in machinery and equipment. Omni continues to project job growth and is accepting applications for new hires.

Murotech Ohio's (MTO) employment has remained steady at 130 employees. The company has expanded its operations since locating in St. Marys and continues to plan for future investment in equipment. Murotech Ohio recently completed construction of an additional 15,000 square feet of space at its current facility.

Pro-Pet LLC, a manufacturer of premium pet food, is now operating a food-grade facility and is continually acquiring new clients. As a result, the company constructed a small addition in 2015 and continues to invest in new equipment to meet customer needs.

The St. Marys Foundry is in the midst of an expansion project that will no doubt allow it to continue to prosper. The facility has called St. Marys home for decades and has plans to continue to grow.

The Joint Township District Memorial Hospital (JTDMH) remains the top non-manufacturing sector employer with approximately 585 employees. The hospital is considered a top health care facility in the United States and continues to improve services and upgrade the facility. JTDMH has invested significantly in the building during the past ten years including completion of a new Women's Center, Laboratory, Wound Care Center with two hyperbaric chambers, Neurology Center, and a Sleep Center. In 2015, JTDMH acquired additional land to accommodate future growth and is currently planning an expansion of patient rooms. The addition and renovation of 24 new ambulatory surgery rooms was completed in 2015, and the hospital is currently upgrading its operating rooms and surrounding areas, including significant investment in new, state-of-the-art equipment.

All of the industries in the city continue to remain in need of workers and are hiring. This indicates strong growth and expansion.

Retail growth was very strong in St. Marys in the recent past with construction of the Shoppes at St. Marys commercial development, which includes Kroger and Kohl's as anchor tenants and three developed commercial outlots.

The Community Improvement Corporation of St. Marys (CIC) was very active in the downtown during 2015. The CIC sold a historic commercial building in the heart of the downtown, and space in the building has been renovated and occupied by the offices of Omega Metals Group LLC. The CIC acquired and made improvements to a two-story mixed-use building downtown and rented the first floor retail space to Arts Place, a cultural arts center in St. Marys that had lost its lease and was in danger of moving out of St. Marys. The CIC helped keep Arts Place in town and rented the upstairs apartment as well. The CIC continues to improve and lease other commercial space in the downtown area. The CIC has acquired two addition buildings in the downtown district with plans to sell them for development. One of the buildings was recently sold to an individual who renovated and saved a structure that was otherwise going to be torn down, leaving a hole in the downtown district. The CIC sees itself as the real estate arm for the city.

The diversity of the manufacturing, retail, and service sectors bode 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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The downtown continues to be a point of focus for the city. Through the downtown façade improvement program, the city offers a matching grant program to property owners who want to fix up their downtown properties. This program has been met with great success as the downtown has improved.

The City also continues to market several greenfield sites to potential end users. The City has a 32-acre site along McKinley Road that is in close proximity to U.S. 33. This site would be excellent for a small to medium sized operation. The City also has 19.5 acres of land along County Road 33A that is being marketed.

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 was completed in 1845 to help maintain the water levels in the canal. Grand Lake St. Marys is now a tourist area in Ohio, providing recreational opportunities such as boating and fishing for visitors and residents alike.

The City's future promises to be even brighter than its historic past. The City is a community of approximately 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.

Contacting the City's Financial Management

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 8,420,504	\$ 10,407,235	\$ 18,827,739
Cash in segregated accounts.	4,317	99,125	103,442
Receivables (net of allowance for uncollectibles):			
Income taxes	842,014	-	842,014
Real and other taxes.	367,990	68,706	436,696
Accounts	65,153	2,069,845	2,134,998
Special assessments.	232,409	2,227	234,636
Loans	843,066	-	843,066
Notes	229,970	-	229,970
Accrued interest.	17,091	-	17,091
Internal balance	(36,442)	36,442	-
Due from other governments	342,552	84,355	426,907
Prepayments.	158,700	138,771	297,471
Materials and supplies inventory	80,357	436,067	516,424
Investment in joint venture	-	397,220	397,220
Net pension asset.	2,585	4,411	6,996
Restricted assets:			
Refundable cash deposits	-	388,515	388,515
Cash with fiscal agent.	136,559	-	136,559
Capital assets:			
Non-depreciable capital assets	2,886,604	6,690,373	9,576,977
Depreciable capital assets, net	<u>18,585,513</u>	<u>24,909,131</u>	<u>43,494,644</u>
Total capital assets, net	<u>21,472,117</u>	<u>31,599,504</u>	<u>53,071,621</u>
Total assets	<u>33,178,942</u>	<u>45,732,423</u>	<u>78,911,365</u>
Deferred outflows of resources:			
Pension - OPERS.	688,989	1,175,969	1,864,958
Pension - OP&F.	<u>1,270,847</u>	<u>-</u>	<u>1,270,847</u>
Total deferred outflows of resources	<u>1,959,836</u>	<u>1,175,969</u>	<u>3,135,805</u>
Liabilities:			
Accounts payable	42,214	2,743,753	2,785,967
Contracts payable	-	140,857	140,857
Accrued wages and benefits.	53,845	43,259	97,104
Due to other governments.	12,088	31,474	43,562
Judgments payable.	1,500	-	1,500
Accrued interest payable	547	15,135	15,682
Notes payable.	86,000	4,100,000	4,186,000
Payable from restricted assets:			
Refundable cash deposits	-	388,515	388,515
Long-term liabilities:			
Due within one year.	81,579	1,004,238	1,085,817
Net pension liability.	7,285,252	3,061,575	10,346,827
Due in more than one year	<u>331,545</u>	<u>12,766,430</u>	<u>13,097,975</u>
Total liabilities	<u>7,894,570</u>	<u>24,295,236</u>	<u>32,189,806</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year.	352,955	-	352,955
Pension - OPERS.	71,975	122,846	194,821
Pension - OP&F.	<u>359,737</u>	<u>-</u>	<u>359,737</u>
Total deferred inflows of resources	<u>784,667</u>	<u>122,846</u>	<u>907,513</u>
Net position:			
Net investment in capital assets.	21,386,117	17,416,385	38,802,502
Restricted for:			
Capital projects.	1,696,640	-	1,696,640
Debt service	114,256	-	114,256
Transportation projects.	1,094,634	-	1,094,634
Community improvements	2,171,224	-	2,171,224
Other purposes.	94,400	-	94,400
Unrestricted (deficit).	<u>(97,730)</u>	<u>5,073,925</u>	<u>4,976,195</u>
Total net position.	<u>\$ 26,459,541</u>	<u>\$ 22,490,310</u>	<u>\$ 48,949,851</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,188,870	\$ 234,091	\$ -	\$ -
Security of persons and property	3,945,300	608,394	-	-
Public health and welfare	35,524	5,954	-	-
Transportation	2,005,618	104,738	365,464	110,773
Community environment	68,496	3,357	27,222	-
Leisure time activity	456,709	123,542	-	-
Interest and fiscal charges	5,932	-	-	-
Total governmental activities	<u>7,706,449</u>	<u>1,080,076</u>	<u>392,686</u>	<u>110,773</u>
Business-type activities:				
Water	1,816,756	1,879,600	-	-
Sewer	2,614,718	2,202,165	-	414,671
Electric	18,471,954	17,954,661	-	-
Refuse	796,049	945,650	30,450	-
Total business-type activities	<u>23,699,477</u>	<u>22,982,076</u>	<u>30,450</u>	<u>414,671</u>
Total primary government	<u>\$ 31,405,926</u>	<u>\$ 24,062,152</u>	<u>\$ 423,136</u>	<u>\$ 525,444</u>

General revenues:

- Property taxes levied for:
 - General purposes
 - Special purposes
- Income taxes levied for:
 - General purposes
 - Special purposes
 - Capital projects
- Grants and entitlements not restricted to specific programs
- Investment earnings
- Decrease in fair value of investments
- Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Net position at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Governmental Activities	Business-type Activities	Total
\$ (954,779)	\$ -	\$ (954,779)
(3,336,906)	-	(3,336,906)
(29,570)	-	(29,570)
(1,424,643)	-	(1,424,643)
(37,917)	-	(37,917)
(333,167)	-	(333,167)
(5,932)	-	(5,932)
<u>(6,122,914)</u>	<u>-</u>	<u>(6,122,914)</u>
-	62,844	62,844
-	2,118	2,118
-	(517,293)	(517,293)
-	180,051	180,051
-	<u>(272,280)</u>	<u>(272,280)</u>
<u>(6,122,914)</u>	<u>(272,280)</u>	<u>(6,395,194)</u>
1,120,552	-	1,120,552
66,454	-	66,454
2,405,222	-	2,405,222
526,215	-	526,215
1,827,171	-	1,827,171
321,988	10,991	332,979
114,274	19,369	133,643
(52,744)	-	(52,744)
180,264	343,358	523,622
<u>6,509,396</u>	<u>373,718</u>	<u>6,883,114</u>
<u>(207,943)</u>	<u>207,943</u>	<u>-</u>
<u>6,301,453</u>	<u>581,661</u>	<u>6,883,114</u>
178,539	309,381	487,920
<u>26,281,002</u>	<u>22,180,929</u>	<u>48,461,931</u>
<u>\$ 26,459,541</u>	<u>\$ 22,490,310</u>	<u>\$ 48,949,851</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	<u>General</u>	<u>Voted Income Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 2,535,614	\$ 1,419,958	\$ 4,462,347	\$ 8,417,919
Cash in segregated accounts.	4,317	-	-	4,317
Receivables:				
Income taxes	404,167	280,643	157,204	842,014
Real and other taxes.	291,013	-	76,977	367,990
Accounts	64,747	-	349	65,096
Special assessments.	-	-	232,409	232,409
Loans	-	-	843,066	843,066
Notes	-	-	229,970	229,970
Accrued interest.	17,091	-	-	17,091
Due from other funds	66,416	-	-	66,416
Due from other governments	144,621	670	197,261	342,552
Prepayments.	128,091	2,983	26,351	157,425
Materials and supplies inventory	39,752	-	24,308	64,060
Restricted assets:				
Cash with fiscal agent.	-	-	136,559	136,559
Total assets	<u>\$ 3,695,829</u>	<u>\$ 1,704,254</u>	<u>\$ 6,386,801</u>	<u>\$ 11,786,884</u>
Liabilities:				
Accounts payable.	\$ 2,940	\$ 23,771	\$ 15,503	\$ 42,214
Accrued wages and benefits payable	43,062	1,680	8,304	53,046
Interfund loans payable.	-	-	106,240	106,240
Due to other governments	10,422	259	1,283	11,964
Accrued interest payable	-	-	547	547
Judgments payable.	1,500	-	-	1,500
Notes payable	-	-	86,000	86,000
Total liabilities	<u>57,924</u>	<u>25,710</u>	<u>217,877</u>	<u>301,511</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year.	278,986	-	73,969	352,955
Income tax revenue not available	210,279	146,012	81,790	438,081
Delinquent property tax revenue not available	4,139	-	916	5,055
Accrued interest not available.	11,718	-	-	11,718
Special assessments revenue not available	-	-	232,409	232,409
Intergovernmental revenue not available	99,861	-	171,558	271,419
Licenses and permits revenue not available.	24,798	-	-	24,798
Total deferred inflows of resources.	<u>629,781</u>	<u>146,012</u>	<u>560,642</u>	<u>1,336,435</u>
Fund balances:				
Nonspendable	172,132	2,983	50,659	225,774
Restricted.	-	1,529,549	3,678,691	5,208,240
Committed	-	-	2,024,061	2,024,061
Assigned	385,895	-	13,165	399,060
Unassigned (deficit)	<u>2,450,097</u>	<u>-</u>	<u>(158,294)</u>	<u>2,291,803</u>
Total fund balances.	<u>3,008,124</u>	<u>1,532,532</u>	<u>5,608,282</u>	<u>10,148,938</u>
Total liabilities, deferred inflows of resources and fund balances.	<u>\$ 3,695,829</u>	<u>\$ 1,704,254</u>	<u>\$ 6,386,801</u>	<u>\$ 11,786,884</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016

Total governmental fund balances	\$	10,148,938
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities (excluding internal service fund capital assets) are not financial resources and therefore are not reported in the funds.		21,455,617
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		
Income taxes receivable	\$ 438,081	
Real and other taxes receivable	5,055	
Accounts receivable	24,798	
Special assessments receivable	232,409	
Accrued interest receivable	11,718	
Due from other governments	271,419	
Total	983,480	
The internal service fund is used by management to charge the costs of the maintenance garage to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position. The net position of the internal service fund, including an internal balance of \$3,382 and (\$9,040) for total net position of the internal service fund, is:		(5,658)
The net pension asset and net pension liability are not available to pay for current period expenditures and are not due and payable in the current period, respectively; therefore, the asset, the liability and related deferred inflows/outflows are not reported in governmental funds.		
Net pension asset	2,486	
Deferred outflows of resources	1,933,530	
Deferred inflows of resources	(428,964)	
Net pension liability	(7,216,764)	
Total	(5,709,712)	
Long-term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.		(413,124)
Net position of governmental activities	\$	26,459,541

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, 2016

	<u>General</u>	<u>Voted Income Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 2,448,607	\$ 1,492,695	\$ 843,217	\$ 4,784,519
Real and other taxes.	1,120,102	-	66,352	1,186,454
Charges for services.	727,829	-	80,121	807,950
Licenses and permits	104,310	-	-	104,310
Fines and forfeitures	12,730	-	1,265	13,995
Intergovernmental.	284,822	-	506,305	791,127
Special assessments	-	-	69,305	69,305
Investment income.	98,370	896	24,210	123,476
Decrease in fair value of investments.	(52,744)	-	-	(52,744)
Rental income	47,883	-	3,520	51,403
Contributions and donations.	3,221	-	-	3,221
Other	113,669	22,466	51,599	187,734
Total revenues	<u>4,908,799</u>	<u>1,516,057</u>	<u>1,645,894</u>	<u>8,070,750</u>
Expenditures:				
Current:				
General government.	1,048,513	-	-	1,048,513
Security of persons and property	2,749,169	-	385,917	3,135,086
Public health and welfare	26,955	-	-	26,955
Transportation.	-	-	802,178	802,178
Community environment	15,198	-	-	15,198
Leisure time activity.	196,590	-	94,146	290,736
Capital outlay	-	2,831,575	703,597	3,535,172
Debt service:				
Interest and fiscal charges	-	-	5,970	5,970
Total expenditures	<u>4,036,425</u>	<u>2,831,575</u>	<u>1,991,808</u>	<u>8,859,808</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>872,374</u>	<u>(1,315,518)</u>	<u>(345,914)</u>	<u>(789,058)</u>
Other financing sources (uses):				
Transfers in	-	-	347,189	347,189
Transfers out.	(504,743)	-	(50,389)	(555,132)
Total other financing sources (uses)	<u>(504,743)</u>	<u>-</u>	<u>296,800</u>	<u>(207,943)</u>
Net change in fund balances	367,631	(1,315,518)	(49,114)	(997,001)
Fund balances at beginning of year	2,646,579	2,848,050	5,649,105	11,143,734
Change in nonspendable inventory	(6,086)	-	8,291	2,205
Fund balances at end of year	<u>\$ 3,008,124</u>	<u>\$ 1,532,532</u>	<u>\$ 5,608,282</u>	<u>\$ 10,148,938</u>

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, 2016

Net change in fund balances - total governmental funds	\$	(997,001)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 capital outlays exceeded depreciation expense in the current period. Both amounts are exclusive of internal service fund activity.		
Capital asset additions	\$ 3,195,452	
Current year depreciation	<u>(1,671,487)</u>	
Total		1,523,965
Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed.		
		2,205
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	(25,911)	
Real and other taxes	552	
Licenses and permits	1,200	
Special assessments	31,913	
Intergovernmental	6,556	
Investment income	<u>7,871</u>	
Total		22,181
In the statement of activities, interest is accrued on outstanding long-term liabilities, whereas in governmental funds, an interest expenditure is reported when due.		
		38
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		530,368
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(920,472)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		29,203
The internal service fund used by management to charge the costs of the maintenance garage to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including internal balance activity of \$(5,173), is allocated among the governmental activities.		
		<u>(11,948)</u>
Change in net position of governmental activities	\$	<u>178,539</u>

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 2,813,423	\$ 2,688,530	\$ 2,463,921	\$ (224,609)
Real and other taxes.	1,276,459	1,219,796	1,117,889	(101,907)
Charges for services.	810,977	774,977	710,232	(64,745)
Licenses, permits and fees	119,106	113,819	104,310	(9,509)
Fines and forfeitures.	13,841	13,227	12,122	(1,105)
Intergovernmental.	299,082	285,805	261,928	(23,877)
Investment income	129,265	123,527	113,207	(10,320)
Rental income.	54,675	52,248	47,883	(4,365)
Contributions and donations	3,678	3,515	3,221	(294)
Other	124,200	118,687	108,771	(9,916)
Total revenues.	<u>5,644,706</u>	<u>5,394,131</u>	<u>4,943,484</u>	<u>(450,647)</u>
Expenditures:				
Current:				
General government.	1,256,964	1,465,255	1,191,455	273,800
Security of persons and property	3,223,530	3,225,228	2,799,276	425,952
Public health and welfare	13,349	13,349	26,869	(13,520)
Community environment	33,666	33,666	15,198	18,468
Leisure time activity.	235,042	235,042	208,965	26,077
Total expenditures.	<u>4,762,551</u>	<u>4,972,540</u>	<u>4,241,763</u>	<u>730,777</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>882,155</u>	<u>421,591</u>	<u>701,721</u>	<u>280,130</u>
Other financing sources (uses):				
Sale of capital assets	1,004	959	879	(80)
Transfers out	<u>(1,304,450)</u>	<u>(1,309,477)</u>	<u>(493,327)</u>	<u>816,150</u>
Total other financing sources (uses).	<u>(1,303,446)</u>	<u>(1,308,518)</u>	<u>(492,448)</u>	<u>816,070</u>
Net change in fund balance	(421,291)	(886,927)	209,273	1,096,200
Fund balance at beginning of year	2,160,469	2,160,469	2,160,469	-
Prior year encumbrances appropriated.	91,115	91,115	91,115	-
Fund balance at end of year	<u>\$ 1,830,293</u>	<u>\$ 1,364,657</u>	<u>\$ 2,460,857</u>	<u>\$ 1,096,200</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF ST. MARYS
AUGLAIZE COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2016

Business-type Activities - Enterprise Funds

	Water	Sewer	Electric	Refuse
Assets:				
Current assets:				
Equity in pooled cash and investments	\$ 716,714	\$ 966,460	\$ 6,253,453	\$ 2,470,608
Cash in segregated accounts	-	-	99,125	-
Receivables:				
Real and other taxes	-	-	68,706	-
Accounts	155,972	180,179	1,652,808	80,886
Special assessments	1,476	751	-	-
Interfund loans	-	-	106,240	-
Due from other governments	81,467	487	1,182	1,219
Prepayments	34,434	41,465	45,665	17,207
Materials and supplies inventory	166,905	36,804	218,776	13,582
Net pension asset	1,184	878	1,759	590
Total current assets	<u>1,158,152</u>	<u>1,227,024</u>	<u>8,447,714</u>	<u>2,584,092</u>
Noncurrent assets:				
Restricted assets:				
Refundable cash deposits	-	-	388,515	-
Investment in joint venture	-	-	397,220	-
Capital assets:				
Non-depreciable capital assets	1,076,097	936,218	4,374,363	303,695
Depreciable capital assets, net	3,991,838	14,037,757	5,798,824	1,080,712
Total capital assets, net	<u>5,067,935</u>	<u>14,973,975</u>	<u>10,173,187</u>	<u>1,384,407</u>
Total noncurrent assets	<u>5,067,935</u>	<u>14,973,975</u>	<u>10,958,922</u>	<u>1,384,407</u>
Total assets	<u>6,226,087</u>	<u>16,200,999</u>	<u>19,406,636</u>	<u>3,968,499</u>
Deferred outflows of resources:				
Pension - OPERS	315,720	234,001	468,915	157,333
Total deferred outflows of resources	<u>315,720</u>	<u>234,001</u>	<u>468,915</u>	<u>157,333</u>
Liabilities:				
Current liabilities:				
Accounts payable	83,466	-	2,641,397	18,890
Contracts payable	-	-	140,857	-
Accrued wages and benefits	12,264	9,313	17,438	4,244
Compensated absences payable	22,424	8,576	23,849	13,596
Due to other funds	-	-	66,416	-
Due to other governments	20,659	1,438	8,720	657
Accrued interest payable	736	736	13,663	-
Current portion of general obligation bonds payable	45,000	45,000	126,563	-
Current portion of OWDA loans payable	-	500,128	-	-
Current portion of OPWC loans payable	-	19,102	-	-
Current portion of AMP-Ohio stranded cost payable	-	-	200,000	-
Notes payable	-	-	4,100,000	-
Payable from restricted assets:				
Refundable cash deposits	-	-	388,515	-
Total current liabilities	<u>184,549</u>	<u>584,293</u>	<u>7,727,418</u>	<u>37,387</u>
Long-term liabilities:				
Compensated absences payable	101,124	38,575	92,672	45,774
General obligation bonds payable	415,000	415,000	416,991	-
OWDA loans payable	83,812	7,502,286	-	-
OPWC loans payable	-	373,380	-	-
AMP-Ohio stranded cost payable	-	-	804,925	-
Landfill closure/postclosure liability	-	-	-	2,476,891
Net pension liability	821,961	609,211	1,220,796	409,607
Total long-term liabilities	<u>1,421,897</u>	<u>8,938,452</u>	<u>2,535,384</u>	<u>2,932,272</u>
Total liabilities	<u>1,606,446</u>	<u>9,522,745</u>	<u>10,262,802</u>	<u>2,969,659</u>
Deferred inflows of resources:				
Pension - OPERS	32,981	24,445	48,985	16,435
Total deferred inflows of resources	<u>32,981</u>	<u>24,445</u>	<u>48,985</u>	<u>16,435</u>
Net position:				
Net investment in capital assets	4,524,123	6,119,079	5,388,776	1,384,407
Unrestricted (deficit)	378,257	768,731	4,174,988	(244,669)
Total net position	<u>\$ 4,902,380</u>	<u>\$ 6,887,810</u>	<u>\$ 9,563,764</u>	<u>\$ 1,139,738</u>

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

Net position of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 10,407,235	\$ 2,585
99,125	-
68,706	-
2,069,845	-
2,227	-
106,240	-
84,355	57
138,771	1,275
436,067	16,297
4,411	99
<u>13,416,982</u>	<u>20,313</u>
388,515	-
397,220	-
6,690,373	-
<u>24,909,131</u>	<u>16,500</u>
<u>31,599,504</u>	<u>16,500</u>
<u>32,385,239</u>	<u>16,500</u>
<u>45,802,221</u>	<u>36,813</u>
1,175,969	26,306
<u>1,175,969</u>	<u>26,306</u>
2,743,753	-
140,857	-
43,259	799
68,445	-
66,416	-
31,474	124
15,135	-
216,563	-
500,128	-
19,102	-
200,000	-
4,100,000	-
388,515	-
<u>8,533,647</u>	<u>923</u>
278,145	-
1,246,991	-
7,586,098	-
373,380	-
804,925	-
2,476,891	-
3,061,575	68,488
<u>15,828,005</u>	<u>68,488</u>
<u>24,361,652</u>	<u>69,411</u>
122,846	2,748
<u>122,846</u>	<u>2,748</u>
17,416,385	16,500
5,077,307	(25,540)
22,493,692	\$ (9,040)
(3,382)	
<u>\$ 22,490,310</u>	

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Electric	Refuse
Operating revenues:				
Charges for services	\$ 1,872,951	\$ 2,193,387	\$ 17,954,661	\$ 945,650
Tap-in fees.	6,649	8,778	-	-
Rental income	3,004	-	42,946	16,915
Other.	124,897	35,053	105,544	14,999
Total operating revenues.	2,007,501	2,237,218	18,103,151	977,564
Operating expenses:				
Personal services.	935,352	664,285	1,369,716	439,112
Contractual services	360,837	300,302	387,128	195,365
Materials and supplies.	229,138	577,537	15,798,529	34,472
Depreciation.	256,274	797,905	704,281	129,065
Other.	19,149	468	31,663	238
Total operating expenses.	1,800,750	2,340,497	18,291,317	798,252
Operating income (loss)	206,751	(103,279)	(188,166)	179,312
Nonoperating revenues (expenses):				
Interest and fiscal charges	(16,873)	(275,110)	(73,220)	-
Interest income	372	379	17,704	914
Intergovernmental	-	-	-	30,450
Decrease in investment in joint venture	-	-	(97,640)	-
Other local tax revenue.	-	-	10,991	-
Excise tax expense	-	-	(10,991)	-
Total nonoperating revenues (expenses)	(16,501)	(274,731)	(153,156)	31,364
Net income (loss) before transfers	190,250	(378,010)	(341,322)	210,676
Transfers in.	-	-	207,943	-
Capital contributions.	-	414,671	-	-
Change in net position	190,250	36,661	(133,379)	210,676
Net position at beginning of year	4,712,130	6,851,149	9,697,143	929,062
Net position (deficit) at end of year.	\$ 4,902,380	\$ 6,887,810	\$ 9,563,764	\$ 1,139,738

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

Change in net position of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 22,966,649	\$ 346,378
15,427	-
62,865	-
280,493	2,420
<u>23,325,434</u>	<u>348,798</u>
3,408,465	63,267
1,243,632	940
16,639,676	288,366
1,887,525	3,000
51,518	-
<u>23,230,816</u>	<u>355,573</u>
<u>94,618</u>	<u>(6,775)</u>
(365,203)	-
19,369	-
30,450	-
(97,640)	-
10,991	-
(10,991)	-
<u>(413,024)</u>	<u>-</u>
(318,406)	(6,775)
207,943	-
<u>414,671</u>	<u>-</u>
304,208	(6,775)
	<u>(2,265)</u>
	<u>\$ (9,040)</u>
<u>5,173</u>	
<u>\$ 309,381</u>	

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Electric	Refuse
Cash flows from operating activities:				
Cash received from charges for services	\$ 1,739,781	\$ 2,034,770	\$ 16,453,790	\$ 884,681
Cash received from tap-in fees.	6,649	8,778	-	-
Cash received from rental charges	3,004	-	42,946	16,915
Cash received from other operations.	43,430	34,566	196,709	15,737
Cash payments for personal services	(873,195)	(691,026)	(1,337,608)	(424,462)
Cash payments for contract services.	(361,288)	(303,262)	(564,545)	(315,095)
Cash payments for materials and supplies	(160,931)	(579,624)	(14,111,914)	(26,497)
Cash payments for other operations	(386)	(468)	(118,097)	(238)
Net cash provided by (used in) operating activities.	<u>397,064</u>	<u>503,734</u>	<u>561,281</u>	<u>151,041</u>
Cash flows from noncapital financing activities:				
Cash received from transfers in.	-	-	207,943	-
Cash received from the repayment of interfund loans . .	-	-	38,983	-
Cash payments for new interfund loans	-	-	(26,400)	-
Cash received from other local taxes.	-	-	10,991	-
Cash payments for excise tax expense	-	-	(10,991)	-
Net cash provided by (used in) noncapital financing activities.	<u>-</u>	<u>-</u>	<u>220,526</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Cash payments for the acquisition of capital assets	(1,069,320)	(900,042)	(4,625,753)	(10,833)
Intergovernmental	-	-	-	30,450
Bond issuance	512,500	512,500	-	-
Bond issuance costs	(11,000)	(11,000)	-	-
Note issuance	-	-	4,100,000	-
Note issuance costs.	-	-	(28,250)	-
Proceeds from OWDA loan.	83,812	-	-	-
Proceeds from OPWC loan.	-	164,084	-	-
Cash payments for principal retirement	(52,500)	(393,827)	(120,853)	-
Cash payments for interest and fiscal charges.	(5,137)	(263,374)	(31,307)	-
Net cash provided by (used in) capital and related financing activities	<u>(541,645)</u>	<u>(891,659)</u>	<u>(706,163)</u>	<u>19,617</u>
Cash flows from investing activities:				
Cash received from interest earned	372	379	17,704	914
Net cash provided by (used in) investing activities.	<u>372</u>	<u>379</u>	<u>17,704</u>	<u>914</u>
Net increase (decrease) in cash and investments	(144,209)	(387,546)	93,348	171,572
Cash and investments at beginning of year	860,923	1,354,006	6,647,745	2,299,036
Cash and investments at end of year.	<u>\$ 716,714</u>	<u>\$ 966,460</u>	<u>\$ 6,741,093</u>	<u>\$ 2,470,608</u>

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 21,113,022	\$ 346,378
15,427	-
62,865	-
290,442	2,363
(3,326,291)	(70,818)
(1,544,190)	(940)
(14,878,966)	(279,690)
(119,189)	-
<u>1,613,120</u>	<u>(2,707)</u>
207,943	-
38,983	-
(26,400)	-
10,991	-
(10,991)	-
<u>220,526</u>	<u>-</u>
(6,605,948)	-
30,450	-
1,025,000	-
(22,000)	-
4,100,000	-
(28,250)	-
83,812	-
164,084	-
(567,180)	-
(299,818)	-
<u>(2,119,850)</u>	<u>-</u>
<u>19,369</u>	<u>-</u>
<u>19,369</u>	<u>-</u>
(266,835)	(2,707)
11,161,710	5,292
<u>\$ 10,894,875</u>	<u>\$ 2,585</u>

(continued)

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Refuse</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 206,751	\$ (103,279)	\$ (188,166)	\$ 179,312
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	256,274	797,905	704,281	129,065
Changes in assets and liabilities:				
(Increase) in accounts receivable.	(131,884)	(159,246)	(1,501,929)	(60,969)
(Increase) decrease in special assessments receivable.	(1,286)	629	-	-
(Increase) decrease in due from other governments	(81,467)	(487)	(1,182)	738
(Increase) in real and other taxes receivable	-	-	(1,513)	-
(Increase) decrease in materials and supplies inventory	(3,069)	(2,087)	(37,085)	1,627
(Increase) in prepayments	(15,157)	(12,618)	(21,663)	(7,491)
(Increase) in net pension asset.	(303)	(92)	(330)	(109)
(Increase) in deferred outflows - pension - OPERS.	(221,694)	(150,084)	(316,265)	(105,926)
Increase (decrease) in accounts payable	71,276	(1,255)	1,582,079	6,348
Increase in contracts payable	-	-	140,857	-
Increase (decrease) in accrued wages and benefits	(1,399)	674	987	(978)
Increase (decrease) in compensated absences payable	4,733	(982)	6,669	9,086
Increase (decrease) in due to other governments	13,599	(4,343)	(4,169)	(2,950)
Increase in due to other funds	-	-	1,580	-
Increase in refundable cash deposits liability.	-	-	3,998	-
Increase in net pension liability.	277,542	123,330	336,952	111,963
Increase in deferred inflows - pension - OPERS.	23,148	15,669	33,021	11,059
(Decrease) in landfill closure/postclosure liability	-	-	-	(119,734)
(Decrease) in AMP-Ohio stranded cost payable.	-	-	(176,841)	-
Net cash provided by (used in) operating activities	<u>\$ 397,064</u>	<u>\$ 503,734</u>	<u>\$ 561,281</u>	<u>\$ 151,041</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Non-cash transactions:

The sewer fund received \$414,671 in principal forgiveness from the OWDA on loans outstanding during 2016.

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 94,618	\$ (6,775)
1,887,525	3,000
(1,854,028)	-
(657)	-
(82,398)	(57)
(1,513)	-
(40,614)	12,602
(56,929)	(1,275)
(834)	(4)
(793,969)	(16,119)
1,658,448	(3,926)
140,857	-
(716)	(677)
19,506	-
2,137	(664)
1,580	-
3,998	-
849,787	9,505
82,897	1,683
(119,734)	-
(176,841)	-
<u>\$ 1,613,120</u>	<u>\$ (2,707)</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2016

	Agency
Assets:	
Equity in pooled cash and investments	\$ 104,237
Receivables:	
Income taxes.	1,019,502
Total assets	\$ 1,123,739
Liabilities:	
Due to other governments.	\$ 1,035,789
Payroll withholdings	36,168
Undistributed assets	51,782
Total liabilities	\$ 1,123,739

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 - DESCRIPTION OF THE CITY

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

The City operates under a mayor-council form of government. Legislative power is vested in a seven member City Council and a City Council President, all of which are 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. These elected officials are all elected for four-year terms.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City’s significant accounting policies are described below.

A. Reporting Entity

The City’s reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that 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.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s Governing Board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; 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 that are fiscally dependent on the City in that 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. The basic financial statements of the reporting entity include only those of the City (the primary government).

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

JOINT VENTURES 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 American Municipal Power of Ohio (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, 2016, 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 position 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 twenty-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, 2016, the outstanding debt was \$4,142,633. The City's net obligation for this amount at December 31, 2016 was \$157,420. 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 \$397,220 at December 31, 2016. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2016 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. Marys	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

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

Year Ended December 31,	<u>Principal</u>	<u>Interest</u>	Total Debt <u>Service</u>
2017	<u>\$ 159,123</u>	<u>\$ 2,185</u>	<u>\$ 161,308</u>

AMP-Ohio Solar Project

In 2012 AMP constructed a 3.54 MW solar energy generation field on a brownfield area including on top of an old land fill, in Napoleon, Ohio.

The project consisted of 17,160 solar panels covering 20.74 acres. Construction started in April 2012 and the facility went online late August 2012. AMP financed the project on its revolving line of credit at \$9,600,000. The balance as of December 31, 2016, including interest, is \$7,340,284. There are three (3) member project participants. Those participants are the City of Napoleon, Ohio (1,040 kW), the City of St. Marys, Ohio (2,300 kW) and the Village of Waynesfield, Ohio (200 kW).

The City of St. Marys has executed a take-or-pay sales contract with AMP for 2,300 kW or 64.97% of capacity and associated energy from the solar facility.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

INSURANCE PURCHASING POOL

The City participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio 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.

B. Basis of Presentation

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

Government-Wide Financial Statements - The statement of net position 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 position 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 functions are self-financing or draw from the general revenues of the City.

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

C. Fund Accounting

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

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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 intended for 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.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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.

Internal Service Fund - 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 fund reports on the operations of the City's maintenance garage.

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. 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. The City's agency funds have been combined into one on the basic financial statements.

D. Measurement Focus

Government-Wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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 deferred outflows of resources and current liabilities and deferred inflows of resources 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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 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 inflows of resources and deferred outflows of resources, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On the 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, See Note 16 for deferred outflows of resources related the City's net pension liability.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes, but is not limited to, income taxes, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the City, see Note 16 for deferred inflows of resources related to the City's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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.

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 2016.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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 revenue estimates, and the County Budget Commission finds the revised estimates to be reasonable. The amounts set forth in the basic financial statements represent estimates from the final amended official certificate of estimated resources issued during 2016.

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 budgetary comparison statement, represent the appropriated budget amounts and all supplemental appropriations.

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

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

G. Cash and Investments

To improve cash management, cash received by the City, other than cash 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 investments" on the basic financial statements.

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented on the basic financial statements as "cash in segregated accounts" since they are not required to be deposited into the City treasury. The City maintains segregated depository accounts for ambulance monies and for proceeds related to the demolition of the City's power plant.

During 2016, investments were limited to Federal Home Loan Bank (FHLB) and Federal Home Loan Mortgage Corporation (FHLMC) securities, U.S. Treasury money market mutual funds, negotiable certificates of deposit, 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.

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 2016 was \$98,370, which includes \$79,222 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 the City beyond December 31, 2016 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it is consumed.

On the governmental fund financial statements, prepaid items are equally offset by nonspendable fund balance, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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 funds when purchased. Inventories of the proprietary funds are expensed when used.

On the governmental fund financial statements, reported materials and supplies inventory is equally offset by nonspendable fund balance, 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 position, 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 position 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 primarily 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	20 - 25 years	20 - 25 years
Buildings and improvements	20 - 25 years	25 years
Equipment and furniture	7 - 15 years	7 - 25 years
Vehicles	7 - 10 years	7 - 10 years
Infrastructure	20 - 40 years	10 - 50 years

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

M. Compensated Absences

Vacation leave 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 leave when earned for all employees with more than one year of service.

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

The entire compensated absences 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. When applicable, 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 on the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

O. Interfund Balances

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

P. Interfund Activity

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

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

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:

Nonspendable - The nonspendable 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. Fund balance is also assigned for any subsequent year appropriations in excess of estimated receipts in the general fund.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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.

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 2016, the City did receive capital contributions in the sewer fund.

U. Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing or liabilities used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of monies intended 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 position is available.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. The City reported neither type of transaction during 2016.

W. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

X. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2016, the City has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the City's fiscal year 2016 financial statements (see Note 4); however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the City.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the City.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. These disclosures were incorporated in the City's fiscal year 2016 financial statements (see Note 23); however, there was no effect on beginning net position/fund balance.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the City.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for 2016. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the City.

B. Deficit Fund Balances

Fund balances at December 31, 2016 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Special Assessment Bond Retirement	\$ 80,015
Special Assessment Improvement	78,279

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (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 Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 City Auditor 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 City Auditor or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Restricted cash with fiscal agent: At year end, the City had \$136,559 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, 2016. This amount is not included in "investments" below.

Restricted assets: At year end, the City had various deposits that were restricted (See Note 19). These amounts are included in "deposits with financial institutions" below.

Cash in segregated accounts: At year end, the City had \$4,317 and \$99,125 on deposit with financial institutions for monies related to the City's ambulance services and the City's project escrow, respectively. This amount is included in "deposits with financial institutions" below.

A. Deposits with Financial Institutions

At December 31, 2016, the carrying amount of all City deposits was \$11,824,377. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2016, \$7,420,520 of the City's bank balance of \$12,176,196 was exposed to custodial credit risk as discussed below, while \$4,755,676 was covered by the FDIC.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. 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, 2016, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Measurement Value</u>	<u>6 Months or Less</u>	<u>Investment Maturities</u>			
			<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>	<u>Greater than 24 Months</u>
<i>Fair value:</i>						
Negotiable CD's	\$ 4,158,716	\$ 700,492	\$ 1,279,191	\$ 1,679,770	\$ 251,480	\$ 247,783
FHLB	1,472,460	-	-	-	-	1,472,460
FHLMC	1,965,220	-	-	-	-	1,965,220
U.S. Treasury money market mutual funds	3,160	3,160	-	-	-	-
Total	\$ 7,599,556	\$ 703,652	\$ 1,279,191	\$ 1,679,770	\$ 251,480	\$ 3,685,463

At December 31, 2016, the weighted average maturity of investments is 2.76 years.

Fair Value Measurements: The City's investments in U.S. treasury money market mutual funds are valued using quoted market prices in active markets (Level 1 inputs). The City's investments in federal agency securities (FHLB and FHLMC), and negotiable CD's are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: The U.S. Treasury money market mutual funds carry a rating of AAAm by Standard & Poor's. The City's investments in FHLB and FHLMC securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, Inc., respectively. The City's negotiable certificates of deposit were fully insured by the FDIC. The City has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

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 FHLB and FHLMC securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the City's name. The City has no investment policy dealing with investment custodial credit 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, 2016:

<u>Investment Type</u>	<u>Measurement Value</u>	<u>% of Total</u>
<i>Fair value:</i>		
Negotiable CD's	\$ 4,158,716	54.72
FHLB	1,472,460	19.38
FHLMC	1,965,220	25.86
U.S. Treasury money market mutual funds	<u>3,160</u>	<u>0.04</u>
Total	<u>\$ 7,599,556</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note disclosure to cash and investments as reported on the statement of net position as of December 31, 2016:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 11,824,377
Investments	7,599,556
Restricted cash with fiscal agent	<u>136,559</u>
Total	<u>\$ 19,560,492</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 8,561,380
Business-type activities	10,894,875
Agency funds	<u>104,237</u>
Total	<u>\$ 19,560,492</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended December 31, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfers out of general fund and into:</u>	
Electric fund	\$ 207,943
Nonmajor governmental funds	296,800
<u>Transfer out of nonmajor governmental fund and into:</u>	
Nonmajor governmental funds	50,389
Total	<u>\$ 555,132</u>

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.

The City transferred \$50,389 between the nonmajor governmental funds to record the repayment of the debt related to the 2016 Bond Anticipation notes, and the transfer of unused project proceeds to the debt fund related to the bond issuance during 2016.

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.

- B.** Interfund loans receivable/payable consisted of the following, as reported on the fund financial statements for the year ended December 31, 2016:

<u>Interfund loans receivable in the electric fund from:</u>	
Nonmajor governmental funds	<u>\$ 106,240</u>

The interfund loans are City street improvement bonds which represent amounts borrowed from other City funds. The bonds were issued in order to finance street improvements.

Interfund loans between governmental activities and business-type activities are reported as a component of "internal balance" on the statement of net position.

- C.** Due to/from other funds consisted of the following, as reported on the fund financial statements for the year ended December 31, 2016:

<u>Due to general fund from:</u>	
Electric fund	<u>\$ 66,416</u>

This balance resulted from the time lag between the dates in which payments between the funds were made. Amounts due to/from other funds between governmental activities and business-type activities are reported as a component of "internal balance" on the statement of net position.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 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. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 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, 2016 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2016 operations and the collection of delinquent taxes has been offset by a deferred inflow of resources 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 considered a deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2016 was \$3.32 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2016 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 91,870,070
Commercial/industrial	34,098,610
<u>Public utility</u>	
Real	13,130
Personal	359,610
Total assessed value	<u>\$ 126,341,420</u>

NOTE 7 - LOCAL INCOME TAX

The City levies and collects an income tax of 1.5 percent based on all income earned within the City, as well as on the income 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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 7 - LOCAL INCOME TAX - (Continued)

Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

The City, by ordinance, allocated 1 percent of the income tax revenues to the general fund (0.72%), the street construction and maintenance fund (a nonmajor governmental fund) (0.18%), and the capital improvements fund (a nonmajor governmental fund) (0.10%) for the period of January 1, 2016 through December 31, 2016. The other 0.5 percent is allocated to the voted income tax fund. For 2016, in the fund financial statements, income tax revenue credited to the general fund, voted income tax fund, street construction and maintenance fund (a nonmajor governmental fund) and capital improvement fund (a nonmajor governmental fund), totaled \$2,448,607, \$1,492,695, \$529,324 and \$313,893, respectively.

NOTE 8 - LOANS RECEIVABLE

Loans receivable represent low interest loans for development projects and home improvements granted to eligible City businesses and residents under the Community Development Block Grant (CDBG) program, a federal grant program which is accounted for in the CDBG fund (a nonmajor governmental fund). The outstanding loans have annual interest rates ranging from 2.00% - 3.00%, and are repaid over periods ranging from five to thirty years.

A summary of loans receivable activity during 2016 follows:

	Balance			Balance
<u>Loans receivable:</u>	<u>January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>
Business loans	\$ 909,818	\$ 51,403	\$ (118,155)	\$ 843,066

NOTE 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 Fort Barbee Renovation note was issued on 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 twenty year period. The 207 E. Spring Street note was issued on August 1, 2015 for \$130,000, has an annual interest rate of 1.25%, and is to be repaid on a quarterly basis over a fifteen-year period. At December 31, 2016, the amount owed to the City was \$229,970.

A summary of notes receivable activity during 2016 follows:

	Balance			Balance
<u>Notes receivable:</u>	<u>January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>
Fort Barbee Renovation	\$ 117,039	\$ -	\$ (7,141)	\$ 109,898
207 E. Spring Street Property	128,027	-	(7,955)	120,072
	<u>\$ 245,066</u>	<u>\$ -</u>	<u>\$ (15,096)</u>	<u>\$ 229,970</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 10 - RECEIVABLES

Receivables at December 31, 2016 consisted of income taxes, real and other 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, 2016.

A list of the principal items of receivables reported on the statement of net position follows:

<u>Receivables:</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Income taxes	\$ 842,014	\$ -
Real and other taxes	367,990	68,706
Accounts	65,153	2,069,845
Special assessments	232,409	2,227
Loans	843,066	-
Notes	229,970	-
Accrued interest	17,091	-
Due from other governments	<u>342,552</u>	<u>84,355</u>
Total	<u>\$ 2,940,245</u>	<u>\$ 2,225,133</u>

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

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**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 11 - CAPITAL ASSETS

Governmental activities capital asset activity for the year ended December 31, 2016 was as follows:

<u>Governmental activities:</u>	<u>Balance</u> <u>January 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>December 31, 2016</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,849,443	\$ 37,161	\$ -	\$ 2,886,604
<i>Total capital assets, not being depreciated</i>	<u>2,849,443</u>	<u>37,161</u>	<u>-</u>	<u>2,886,604</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	5,013,126	257,557	(140,340)	5,130,343
Buildings and improvements	1,740,886	49,725	-	1,790,611
Equipment and furniture	1,595,491	429,080	(51,184)	1,973,387
Vehicles	5,318,358	306,862	(1,113,138)	4,512,082
Infrastructure	25,711,449	2,115,067	-	27,826,516
<i>Total capital assets, being depreciated</i>	<u>39,379,310</u>	<u>3,158,291</u>	<u>(1,304,662)</u>	<u>41,232,939</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(2,036,880)	(194,113)	140,340	(2,090,653)
Buildings and improvements	(1,155,744)	(46,866)	-	(1,202,610)
Equipment and furniture	(997,823)	(127,067)	51,184	(1,073,706)
Vehicles	(3,408,664)	(275,671)	1,113,138	(2,571,197)
Infrastructure	(14,678,490)	(1,030,770)	-	(15,709,260)
<i>Total accumulated depreciation</i>	<u>(22,277,601)</u>	<u>(1,674,487)</u>	<u>1,304,662</u>	<u>(22,647,426)</u>
Total capital assets, net	<u>\$ 19,951,152</u>	<u>\$ 1,520,965</u>	<u>\$ -</u>	<u>\$ 21,472,117</u>

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

<u>Governmental activities:</u>	<u>Depreciation</u> <u>Expense</u>
General government	\$ 26,130
Security of persons and property	294,369
Public health and welfare	6,815
Transportation	1,150,875
Community environment	49,617
Leisure time activity	143,681
Capital assets held by the internal service fund are charged to various functions based upon their usage of the capital assets	<u>3,000</u>
Total depreciation expense	<u>\$ 1,674,487</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 11 - CAPITAL ASSETS - (Continued)

Business-type activities capital asset activity for the year ended December 31, 2016 was as follows:

<u>Business-type activities:</u>	<u>Balance</u> <u>January 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>December 31, 2016</u>
<i>Capital assets, not being depreciated:</i>				
Land and easements	\$ 1,221,910	\$ -	\$ -	\$ 1,221,910
Construction in progress	<u>-</u>	<u>5,468,463</u>	<u>-</u>	<u>5,468,463</u>
<i>Total capital assets, not being depreciated</i>	<u>1,221,910</u>	<u>5,468,463</u>	<u>-</u>	<u>6,690,373</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	7,891,040	-	-	7,891,040
Buildings and improvements	16,761,538	137,576	-	16,899,114
Equipment and furniture	12,436,486	146,264	(932,963)	11,649,787
Vehicles	3,939,171	193,260	(689,629)	3,442,802
Infrastructure	<u>20,897,986</u>	<u>660,385</u>	<u>-</u>	<u>21,558,371</u>
<i>Total capital assets, being depreciated</i>	<u>61,926,221</u>	<u>1,137,485</u>	<u>(1,622,592)</u>	<u>61,441,114</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(4,327,162)	(286,362)	-	(4,613,524)
Buildings and improvements	(7,273,279)	(553,983)	-	(7,827,262)
Equipment and furniture	(10,545,149)	(347,004)	932,963	(9,959,190)
Vehicles	(2,822,836)	(179,473)	689,629	(2,312,680)
Infrastructure	<u>(11,298,624)</u>	<u>(520,703)</u>	<u>-</u>	<u>(11,819,327)</u>
<i>Total accumulated depreciation</i>	<u>(36,267,050)</u>	<u>(1,887,525)</u>	<u>1,622,592</u>	<u>(36,531,983)</u>
Total capital assets, net	<u>\$ 26,881,081</u>	<u>\$ 4,718,423</u>	<u>\$ -</u>	<u>\$ 31,599,504</u>

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

<u>Business-type activities:</u>	<u>Depreciation</u> <u>Expense</u>
Water fund	\$ 256,274
Sewer fund	797,905
Electric fund	704,281
Refuse fund	<u>129,065</u>
Total depreciation expense	<u>\$ 1,887,525</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 12 - COMPENSATED ABSENCES

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

City employees earn vacation leave 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 leave.

NOTE 13 - NOTES PAYABLE

The City had the following note activity during 2016:

	Balance			Balance
	<u>January 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2016</u>
<u>Governmental activities:</u>				
Bond anticipation notes, 2015	\$ 50,000	\$ -	\$ (50,000)	\$ -
Bond anticipation notes, 2016	-	86,000	-	86,000
	<u>\$ 50,000</u>	<u>\$ 86,000</u>	<u>\$ (50,000)</u>	<u>\$ 86,000</u>
<u>Business-type activities:</u>				
Improvement notes - Series 2016, electric system improvement	\$ -	\$ 2,100,000	\$ -	\$ 2,100,000
Improvement notes - Series 2016B, electric system	-	2,000,000	-	2,000,000
Total	<u>\$ -</u>	<u>\$ 4,100,000</u>	<u>\$ -</u>	<u>\$ 4,100,000</u>

On December 23, 2015, the City entered into bond anticipation notes for \$50,000 to finance the 2015 street program. The notes carried an interest rate of 1.55% and matured on December 23, 2016.

On July 8, 2016, the City entered into bond anticipation notes for \$86,000 to finance the 2016 Spruce Street Reconstruction Project. The notes carry an interest rate of 1.25% and mature on July 8, 2017. The notes are reported as a liability in the special assessment nonmajor capital projects fund, the fund which received the proceeds.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - NOTES PAYABLE - (Continued)

On May 18, 2016, the City issued Series 2016 bond anticipation notes in the amount of \$2,100,000 to provide funds to pay the costs of the electric system improvement project, as well as to pay for all issuance costs. The notes carry an interest rate of 1.00% and will mature on May 18, 2017. Additionally, on December 20, 2016, the City issued Series 2016B bond anticipation notes in the amount of \$2,000,000 to provide funds to pay the costs of the electric system project, as well as to pay for all issuance costs. The notes carry an interest rate of 1.19% and will mature on December 20, 2017.

NOTE 14 - LONG-TERM OBLIGATIONS

Governmental activities changes in long-term obligations for the year ended December 31, 2016 were as follows:

<u>Governmental activities:</u>	<u>Balance</u>			<u>Balance</u>	<u>Amount</u>
	<u>January 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2016</u>	<u>Due Within</u>
					<u>One Year</u>
<u>Long-term obligations</u>					
Net pension liability	\$ 6,142,458	\$ 1,142,794	\$ -	\$ 7,285,252	\$ -
Compensated absences payable	<u>443,517</u>	<u>59,040</u>	<u>(89,433)</u>	<u>413,124</u>	<u>81,579</u>
Total long-term obligations	<u>\$ 6,585,975</u>	<u>\$ 1,201,834</u>	<u>\$ (89,433)</u>	<u>\$ 7,698,376</u>	<u>\$ 81,579</u>

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

See Note 16 for detail on the net pension liability.

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**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Business-type activities changes in long-term obligations for the year ended December 31, 2016 were as follows:

<u>Business-type activities:</u>	<u>Interest</u>	<u>Balance</u>			<u>Balance</u>	<u>Amount</u>
	<u>Rate</u>	<u>January 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2016</u>	<u>Due Within</u>
						<u>One Year</u>
<u>Capital facility bonds</u>						
Capital facility bonds, series 2016	1.94%	\$ -	\$ 1,025,000	\$ (105,000)	\$ 920,000	\$ 90,000
<u>General obligation bonds</u>						
OMEGA JV2 electric project	3.81%	664,407	-	(120,853)	543,554	126,563
<u>OWDA loans</u>						
Water treatment plant improvements	2.56%	-	83,812	-	83,812	-
Wastewater treatment plant	3.36%	8,739,310	-	(736,896)	8,002,414	500,128
Total OWDA loans		<u>8,739,310</u>	<u>83,812</u>	<u>(736,896)</u>	<u>8,086,226</u>	<u>500,128</u>
<u>OPWC loans</u>						
Sanitary sewer rehabilitation	0.00%	-	164,084	(4,102)	159,982	4,102
Spring Street sanitary lift rehabilitation	0.00%	247,500	-	(15,000)	232,500	15,000
Total OPWC loans		<u>247,500</u>	<u>164,084</u>	<u>(19,102)</u>	<u>392,482</u>	<u>19,102</u>
<u>Other long-term obligations</u>						
Compensated absences payable		327,084	84,553	(65,047)	346,590	68,445
Net pension liability		2,211,788	849,787	-	3,061,575	-
AMP-Ohio stranded cost payable		1,181,766	23,159	(200,000)	1,004,925	200,000
Landfill closure/postclosure liability		2,596,625	-	(119,734)	2,476,891	-
Total other long-term obligations		<u>6,317,263</u>	<u>957,499</u>	<u>(384,781)</u>	<u>6,889,981</u>	<u>268,445</u>
Total long-term obligations		<u>\$ 15,968,480</u>	<u>\$ 2,230,395</u>	<u>\$ (1,366,632)</u>	<u>\$ 16,832,243</u>	<u>\$ 1,004,238</u>

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

See Note 20 for detail of the City's landfill closure/postclosure liability.

Net Pension Liability: See Note 16 for detail.

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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Capital Improvement Bonds – On May 25, 2016, the City issued capital improvement bonds in the amount of \$1,025,000. The bonds will mature on December 1, 2025, and carry an interest rate of 1.94%. Principal and interest payments are paid half out of the water fund and half out of the sewer fund. The bonds are supported by the full faith and credit of the City.

OWDA Loans - 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 83.52% of net revenues and 25.95% of total revenues. The total principal and interest remaining to be paid on the loan is \$9,735,044. Principal and interest paid for the current year was \$580,462, excluding principal forgiveness of \$414,671. Total net revenues were \$695,005, and total revenues were \$2,237,597. The loan is supported by the full faith and credit of the City.

During 2016, the City entered into another OWDA loan agreement for the purpose of financing construction costs for the City's water treatment plant. The loan carries an interest rate of 2.56% and the outstanding balance as of December 31, 2016 was \$83,812. The City will begin making payments on January 1, 2018 for a period of five years. As the loan is still open, no amortization schedule was available at December 31, 2016.

OPWC Loans - The City has entered into debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund a sanitary lift rehabilitation project and a sanitary sewer rehabilitation project. The payments due to the OPWC are made from the City's sewer fund. The loan agreements function similar to a line-of-credit agreement. At December 31, 2016, the City had outstanding OPWC loan borrowings of \$392,482 in the sewer fund. The loan agreement requires semi-annual payments based on the actual amount loaned. The OPWC loans are interest free and are payable through 2032 and 2036, respectively.

AMP-Ohio Stranded Cost Payable - The City is a member of American Municipal Power (AMP) and was 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, which was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share of the AMPGS Project was 21,000 kilowatts out of a total 771,281 kilowatts, giving the City a 2.72 percent share. The take-or-pay contracts signed by the City and other AMPGS Project participants obligated these entities to pay any costs incurred for the AMPGS Project.

In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and the participants of the AMPGS Project were obligated to pay the costs already incurred. In prior years, the eventual payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. However, as a result of a March 31, 2014 legal ruling, on April 16, 2014 the AMP Board of Trustees and the AMPGS Project participants approved the collection of the impaired costs. AMP then provided each AMPGS Project participant with an estimate of its individual liability.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Consistent with prior years, the City continues to record a long-term obligation for its portion of the stranded costs related to the AMPGS Project. The City’s estimated share of the impaired costs at March 31, 2014 was determined to be \$3,642,633. The City received a credit of \$757,070 related to its participation in the AMP Fremont Energy Center Project (the “AFEC Project”), and another credit of \$949,722 related to AMPGS Project costs deemed to have a future benefit for the City (both credits act as a reduction to the City’s long-term obligation for stranded costs, including \$915,535 of the latter credit reported as a special item in the electric fund in a prior year). As of December 31, 2016, the City has made total payments of \$1,000,000 on the AMPGS Project liability, \$200,000 of which occurred during 2016. The City was also responsible for various costs related to the AMPGS Project incurred during 2016 in the amount of \$23,159, which increased the City’s long-term obligation. The net effect of these transactions is a December 31, 2016 impaired cost estimate of \$1,004,925, which is reported as “AMP-Ohio stranded cost payable” in the City’s electric fund.

Now that payments on the outstanding stranded costs associated with the AMPGS Project are probable and reasonably estimable for each AMPGS Project participant, each entity is required to report a liability moving forward. AMP has financed these costs on its revolving line-of-credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the AMPGS Project could potentially impact each participant’s liability. These amounts will be recorded as they become estimable.

In 2011, when the AMPGS Project was determined to be abandoned, the City recognized the total estimated costs established at that time as a current operating expense through the contractual services line item. The City thus elected in 2011 to finance this long-term obligation through existing resources in the electric fund, a plan that is still in place as of December 31, 2016.

The following is a summary of the City’s future payment requirements for the AMPGS Project liability (AMP-Ohio stranded cost payable):

<u>Year Ending December 31,</u>	<u>AMPGS Project Liability Payment</u>
2017	\$ 200,000
2018	200,000
2019	200,000
2020	200,000
2021	204,925
Total	<u>\$ 1,004,925</u>

**CITY OF ST. MARYS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Future Debt Service Requirements - At December 31, 2016, the principal and interest requirements to retire the business-type activities long-term obligations are as follows:

Year Ended	General Obligation Bonds		
	Principal	Interest	Total
2017	\$ 126,563	\$ 25,819	\$ 152,382
2018	132,653	19,807	152,460
2019	138,934	13,506	152,440
2020	145,404	6,907	152,311
Total	<u>\$ 543,554</u>	<u>\$ 66,039</u>	<u>\$ 609,593</u>

Year Ended	Capital Improvement Bonds		
	Principal	Interest	Total
2017	\$ 90,000	\$ 17,848	\$ 107,848
2018	95,000	16,102	111,102
2019	95,000	14,259	109,259
2020	100,000	12,416	112,416
2021	100,000	10,476	110,476
2022-2025	440,000	21,631	461,631
Total	<u>\$ 920,000</u>	<u>\$ 92,732</u>	<u>\$ 1,012,732</u>

Year Ended	OPWC Loans			OWDA Loan		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 19,102	\$ -	\$ 19,102	\$ 500,128	\$ 236,353	\$ 736,481
2018	23,204	-	23,204	517,073	221,223	738,296
2019	23,204	-	23,204	534,593	205,580	740,173
2020	23,204	-	23,204	552,706	189,408	742,114
2021	23,204	-	23,204	571,433	172,688	744,121
2022 - 2026	116,021	-	116,021	3,161,047	592,113	3,753,160
2027 - 2031	116,022	-	116,022	2,165,434	115,265	2,280,699
2032 - 2036	48,522	-	48,522	-	-	-
Total	<u>\$ 392,483</u>	<u>\$ -</u>	<u>\$ 392,483</u>	<u>\$ 8,002,414</u>	<u>\$ 1,732,630</u>	<u>\$ 9,735,044</u>

Legal Debt Margins - At December 31, 2016, the City had a legal voted debt margin of \$13,279,014 and a legal unvoted debt margin of \$6,948,778.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 15 - RISK MANAGEMENT

A. Property and Liability

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

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
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 Coverage	6,000,000	1,000
Buildings and Personal Property	84,692,853	various
Boiler and Equipment Breakdown	84,692,853	various
Inland Marine	3,755,205	1,000
Data Breach	250,000	25,000
Crime Coverage	17,000	various

There were no significant reductions in insurance coverage from 2015, and no insurance settlement has exceeded insurance coverage during the last three years.

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

B. Employee Medical Benefits

Employees have a choice of two insurance plans; a traditional preferred provider organization (PPO) plan and a health savings account (HSA) plan.

The monthly premiums for the PPO plan during the periods of January 1, 2016 through September 30, 2016 and October 1, 2016 through December 31, 2016 were \$708.36 and \$714.29 for single coverage and \$2,089.64 and \$2,107.12 for family coverage, respectively. The employee share is 20% of the premium amount. The PPO plan has an in-network deductible of \$1,000 per year for single coverage and \$3,000 per year for family coverage. Maximum out-of-pocket limits for the PPO plan are equal to the in-network deductibles, \$1,000 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 during the periods of January 1, 2016 through September 30, 2016 and October 1, 2016 through December 31, 2016 were \$763.21 and \$760.63 for single coverage and \$2,251.48 and \$2,243.84 for family coverage, respectively. The employee share was 10% 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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 15 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

For 2016, 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.

NOTE 16 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability/Asset

The net pension liability/asset reported on the statement of net position represents a liability or asset to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability/asset represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability/asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes any net pension liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

The proportionate share of each plan’s unfunded benefits or overfunded benefits is presented as a long-term *net pension liability* or *net pension asset*, respectively, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *due to other governments* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate 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 and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS’ Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS’ fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 3% COLA adjustment on the defined benefit portion of their benefit.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS CAFR.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0 %
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City’s contractually required contribution for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was \$434,375 for 2016. Of this amount, \$8,581 is reported as due to other governments.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension 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 information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>	<u>Firefighters</u>
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	<u>0.50 %</u>	<u>0.50 %</u>
Total Employer	<u>19.50 %</u>	<u>24.00 %</u>
Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$376,020 for 2016. Of this amount \$7,681 is reported as due to other governments.

**CITY OF ST. MARYS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Pension Liabilities/Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability and net pension asset for the OPERS Traditional Pension Plan and Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2015, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability or asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.02919500%	0.09329370%	
Proportion of the net pension liability current measurement date	<u>0.028031%</u>	<u>0.085363%</u>	
Change in proportionate share	<u>-0.001164%</u>	<u>-0.0079307%</u>	
Proportion of the net pension asset prior measurement date	0.014791%		
Proportion of the net pension asset current measurement date	<u>0.017492%</u>		
Change in proportionate share	<u>0.002701%</u>		
Proportionate share of the net pension liability	\$ 4,855,323	\$ 5,491,504	\$ 10,346,827
Proportionate share of the net pension asset	6,996	-	6,996
Pension expense	641,573	691,872	1,333,445

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F	Total
Deferred outflows of resources			
Differences between expected and actual experience	\$ 83	\$ -	\$ 83
Net difference between projected and actual earnings on pension plan investments	1,430,197	893,799	2,323,996
Changes in employer's proportionate percentage/ difference between employer contributions	303	1,028	1,331
City contributions subsequent to the measurement date	434,375	376,020	810,395
Total deferred outflows of resources	\$ 1,864,958	\$ 1,270,847	\$ 3,135,805
Deferred inflows of resources			
Differences between expected and actual experience	97,000	15,420	112,420
Changes in employer's proportionate percentage/ difference between employer contributions	97,821	344,317	442,138
Total deferred inflows of resources	\$ 194,821	\$ 359,737	\$ 554,558

\$810,395 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/asset in the year ending December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2017	\$ 267,648	\$ 166,392	\$ 434,040
2018	290,252	166,392	456,644
2019	356,127	166,390	522,517
2020	323,269	118,401	441,670
2021	(391)	(69,313)	(69,704)
Thereafter	(1,144)	(13,172)	(14,316)
Total	\$ 1,235,761	\$ 535,090	\$ 1,770,851

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability/asset in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.75 percent
Future salary increases, including inflation COLA or ad hoc COLA	4.25 to 10.05 percent including wage inflation Pre 1/7/2013 retirees: 3 percent, simple Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.80% simple
Investment rate of return	8 percent
Actuarial cost method	Individual entry age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 401 (h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.31 %
Domestic equities	20.70	5.84
Real estate	10.00	4.25
Private equity	10.00	9.25
International equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

Discount Rate - The discount rate used to measure the total pension liability/asset was 8 percent for both the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability (asset):			
Traditional Pension Plan	\$ 7,735,715	\$ 4,855,323	\$ 2,425,803
Combined Plan	(144)	(6,983)	(12,485)
Member-Directed Plan	31	(12)	(31)

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Changes Between Measurement Date and Report Date - In October 2016, the OPERS Board of Trustees adopted certain assumption changes which impacted their annual actuarial valuation prepared as of December 31, 2016. The most significant changes are a reduction in the expected investment return to 7.50% from 8.00%, the expected long-term average wage inflation was reduced to 3.25% from 3.75%, the expected long-term average price inflation was reduced to 2.50% from 3.00% and a change to various demographic assumptions. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 and 3.00 percent simple

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed for the five-year period ended December 31, 2011. The recommended assumption changes based on this experience study were adopted by OPF's Board and were effective beginning with the January 1, 2012 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2015 are summarized below:

Asset Class	Target Allocation	10 Year Expected Real Rate of Return **	30 Year Expected Real Rate of Return **
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	6.50 %	7.80 %
Non-US Equity	16.00	6.70	8.00
Core Fixed Income *	20.00	3.50	5.35
Global Inflation			
Protected Securities *	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	<u>120.00 %</u>		

* levered 2x

** numbers include inflation

OPF's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate - The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 7,242,502	\$ 5,491,504	\$ 4,008,158

NOTE 17 - 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 Plan and the Combined Plan. 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/financial/reports.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (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 2016, 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 and Combined Plan for 2016 was 2.00%.

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.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$72,397, \$69,894, and \$72,642, respectively; 98.31% has been contributed for 2016 and 100% has been contributed for 2015 and 2014. The remaining 2016 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

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 health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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 or by visiting the website at www.op-f.org.

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.

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. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2016 thru December 31, 2016. 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).

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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 \$4,701 and \$4,200 for the year ended December 31, 2016, \$4,674 and \$3,954 for the year ended December 31, 2015, and \$4,808 and \$4,122, for the year ended December 31, 2014. 100% has been contributed for 2015 and 2014. 97.83% has been contributed for police and 98.16% has been contributed for firefighters for 2016. The remaining 2016 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

NOTE 18 - 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 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).

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 18 - 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

	<u>General fund</u>
Budget basis	\$ 209,273
Net adjustment for revenue accruals	(35,080)
Net adjustment for expenditure accruals	96,381
Net adjustment for other sources/uses	(12,295)
Funds budgeted elsewhere	(66)
Adjustment for encumbrances	109,418
GAAP basis	\$ 367,631

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.

NOTE 19 - RESTRICTED ASSETS

Refundable electric customer deposits at December 31, 2016 in the amount of \$388,515 are presented as restricted assets (refundable cash deposits) on the proprietary fund statement of net position in the electric fund, and in the business-type activities column of the statement of net position. The City also has permissive tax monies on deposit with Auglaize County at December 31, 2016 in the amount of \$136,559 presented as restricted assets (cash with fiscal agent) on the governmental fund balance sheet in the motor vehicle permissive tax fund (a nonmajor governmental fund), and in the governmental activities column of the statement of net position.

NOTE 20 - LANDFILL CLOSURE/POSTCLOSURE COSTS

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

The City is in the process of closing the landfill. The landfill closure and postclosure liability of \$2,476,891 at December 31, 2016 represents the cumulative amount for closure and postclosure care. The amounts are based on what it would cost to perform all closure and postclosure care in 2016. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by State and federal laws and regulations to provide assurances that financial resources will be available to provide for postclosure care and remediation or containment of environmental hazards at the landfill.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 21 - CONTRACTUAL COMMITMENTS

At December 31, 2016, the City had the following contractual commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Contract Balance</u>
American Municipal Power, Inc.	\$ 16,067,160	\$ (14,760,651)	\$ 1,306,509
Aug/Mercer Land Title Agency	403,238	(400,932)	2,306
Celina Landfill	210,000	(190,030)	19,970
Delta Star, Inc.	557,681	(44,972)	512,709
Grande De Logement, LLC.	225,000	(205,700)	19,300
Miami & Erie Contractors, Inc.	272,030	-	272,030
Myers Controlled Power, LLC.	1,355,540	(135,554)	1,219,986
Power Construction Group, LLC.	1,198,615	(539,721)	658,894
Spectrum Engineering Corp.	450,000	(231,384)	218,616
Xtralight Manufacturing Ltd.	<u>2,500,000</u>	<u>(2,185,056)</u>	<u>314,944</u>
Total contractual commitments	<u>\$ 23,239,264</u>	<u>\$ (18,694,000)</u>	<u>\$ 4,545,264</u>

NOTE 22 - CONTINGENCIES

A. Grants

The City received financial assistance from 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 adverse effect on the overall financial position of the City at December 31, 2016.

B. Litigation

The City is not currently a party to any legal proceedings that would have a materially adverse effect on the financial statements at December 31, 2016.

NOTE 23 - 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:

<u>Fund</u>	<u>Year End Encumbrances</u>
General fund	\$ 109,664
Voted income tax fund	356,372
Nonmajor governmental funds	<u>80,691</u>
Total	<u>\$ 546,727</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 24 - FUND BALANCE

Fund balance is classified as nonspendable, 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 nonmajor governmental funds are presented below:

Fund Balance	General	Voted Income Tax	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepayments	\$ 128,091	\$ 2,983	\$ 26,351	\$ 157,425
Materials and supplies inventory	39,752	-	24,308	64,060
Unclaimed monies	4,289	-	-	4,289
Total nonspendable	<u>172,132</u>	<u>2,983</u>	<u>50,659</u>	<u>225,774</u>
Restricted:				
Capital projects	-	1,529,549	205,542	1,735,091
Transportation projects	-	-	1,207,525	1,207,525
Community improvements	-	-	2,171,224	2,171,224
Other purposes	-	-	94,400	94,400
Total restricted	<u>-</u>	<u>1,529,549</u>	<u>3,678,691</u>	<u>5,208,240</u>
Committed:				
Capital projects	-	-	2,008,825	2,008,825
Leisure time activity	-	-	15,236	15,236
Total committed	<u>-</u>	<u>-</u>	<u>2,024,061</u>	<u>2,024,061</u>
Assigned:				
General government	38,313	-	-	38,313
Security of persons and property	55,264	-	-	55,264
Leisure time activity	11,798	-	-	11,798
Debt service	-	-	13,165	13,165
Subsequent year appropriations	280,520	-	-	280,520
Total assigned	<u>385,895</u>	<u>-</u>	<u>13,165</u>	<u>399,060</u>
Unassigned (deficit)	<u>2,450,097</u>	<u>-</u>	<u>(158,294)</u>	<u>2,291,803</u>
Total fund balances	<u>\$ 3,008,124</u>	<u>\$ 1,532,532</u>	<u>\$ 5,608,282</u>	<u>\$ 10,148,938</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 25 - TAX ABATEMENTS

As of December 31, 2016, the City provides tax abatements through a Community Reinvestment Area (CRA). This program relates to the abatement of property taxes.

CRA - Under the authority of Ohio Revised Code (ORC) Section 3735.67, the CRA program is an economic development tool administered by municipal and county governments that provides real property tax exemptions for property owners who renovate existing or construct new buildings. CRA's are areas of land in which property owners can receive tax incentives for investing in real property improvements. Under the CRA program, local governments petition to the Ohio Development Services Agency (ODSA) for confirmation of a geographical area in which investment in housing is desired. Once an area is confirmed by the ODSA, local governments may offer real property tax exemptions to taxpayers that invest in that area. Property owners in the CRA can receive temporary tax abatements for renovation of existing structures and new construction in these areas. Property owners apply to the local legislative authority for approval to renovate or construct in the CRA. Upon approval and certification of completion, the amount of the abatement is deducted from the individual or entity's property tax bill.

<u>Tax Abatement Program</u>	City <u>Taxes Abated</u>
Income Tax Abatement	<u>\$ 9,456</u>
Total	<u><u>\$ 9,456</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST MARYS, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY/NET PENSION ASSET
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Traditional Plan:</i>			
City's proportion of the net pension liability	0.028031%	0.029195%	0.029195%
City's proportionate share of the net pension liability	\$ 4,855,323	\$ 3,521,243	\$ 3,441,710
City's covered-employee payroll	\$ 3,442,967	\$ 3,586,158	\$ 3,441,600
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.02%	98.19%	100.00%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%
<i>Combined Plan:</i>			
City's proportion of the net pension asset	0.014350%	0.014791%	0.014791%
City's proportionate share of the net pension asset	\$ 6,983	\$ 5,694	\$ 1,552
City's covered-employee payroll	\$ 51,708	\$ 54,067	\$ 48,292
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	13.50%	10.53%	3.21%
Plan fiduciary net position as a percentage of the total pension liability	116.90%	114.83%	104.56%
<i>Member Directed Plan:</i>			
City's proportion of the net pension asset	0.003142%	n/a	n/a
City's proportionate share of the net pension asset	\$ 12	n/a	n/a
City's covered-employee payroll	\$ 17,500	n/a	n/a
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	0.07%	n/a	n/a
Plan fiduciary net position as a percentage of the total pension liability	103.91%	n/a	n/a

Note: Information prior to 2014 was unavailable.

Amounts presented as of the City's measurement date which is the prior year.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST MARYS, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.08536300%	0.09329370%	0.09329370%
City's proportionate share of the net pension liability	\$ 5,491,504	\$ 4,833,003	\$ 4,543,695
City's covered-employee payroll	\$ 1,701,067	\$ 1,864,407	\$ 1,706,163
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	322.83%	259.22%	266.31%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	72.20%	73.00%

Note: Information prior to 2014 was unavailable.

Amounts presented as of the City's measurement date which is the prior year.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST MARYS, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>				
Contractually required contribution	\$ 422,369	\$ 413,156	\$ 430,339	\$ 447,408
Contributions in relation to the contractually required contribution	<u>(422,369)</u>	<u>(413,156)</u>	<u>(430,339)</u>	<u>(447,408)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 3,519,742	\$ 3,442,967	\$ 3,586,158	\$ 3,441,600
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Combined Plan:</i>				
Contractually required contribution	\$ 10,161	\$ 6,205	\$ 6,488	\$ 6,278
Contributions in relation to the contractually required contribution	<u>(10,161)</u>	<u>(6,205)</u>	<u>(6,488)</u>	<u>(6,278)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 84,675	\$ 51,708	\$ 54,067	\$ 48,292
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Member Directed Plan:</i>				
Contractually required contribution	\$ 1,845	\$ 2,100		
Contributions in relation to the contractually required contribution	<u>(1,845)</u>	<u>(2,100)</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>		
City's covered-employee payroll	\$ 15,375	\$ 17,500		
Contributions as a percentage of covered-employee payroll	12.00%	12.00%		

Note: Information prior to 2010 for the combined plan was unavailable and information prior to 2015 for the member directed plan was unavailable.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 345,108	\$ 339,211	\$ 304,273	\$ 281,981	\$ 258,176	\$ 544,576
<u>(345,108)</u>	<u>(339,211)</u>	<u>(304,273)</u>	<u>(281,981)</u>	<u>(258,176)</u>	<u>(544,576)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,451,080	\$ 3,392,110	\$ 3,412,407	\$ 3,470,535	\$ 3,688,229	\$ 6,521,868
10.00%	10.00%	8.92%	8.13%	7.00%	8.35%
\$ 4,064	\$ 4,230	\$ 5,066			
<u>(4,064)</u>	<u>(4,230)</u>	<u>(5,066)</u>			
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			
\$ 51,119	\$ 53,208	\$ 52,299			
7.95%	7.95%	9.69%			

CITY OF ST MARYS, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>				
Contractually required contribution	\$ 178,621	\$ 172,937	\$ 194,200	\$ 146,350
Contributions in relation to the contractually required contribution	<u>(178,621)</u>	<u>(172,937)</u>	<u>(194,200)</u>	<u>(146,350)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 940,111	\$ 910,195	\$ 1,022,105	\$ 921,406
Contributions as a percentage of covered-employee payroll	19.00%	19.00%	19.00%	15.88%
<i>Fire:</i>				
Contractually required contribution	\$ 197,399	\$ 185,855	\$ 197,941	\$ 159,894
Contributions in relation to the contractually required contribution	<u>(197,399)</u>	<u>(185,855)</u>	<u>(197,941)</u>	<u>(159,894)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 839,996	\$ 790,872	\$ 842,302	\$ 784,435
Contributions as a percentage of covered-employee payroll	23.50%	23.50%	23.50%	20.38%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 120,533	\$ 116,848	\$ 115,008	\$ 111,325	\$ 104,059	\$ 152,926
<u>(120,533)</u>	<u>(116,848)</u>	<u>(115,008)</u>	<u>(111,325)</u>	<u>(104,059)</u>	<u>(152,926)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 945,357	\$ 916,455	\$ 902,024	\$ 873,137	\$ 816,149	\$ 1,199,420
12.75%	12.75%	12.75%	12.75%	12.75%	12.75%
\$ 134,482	\$ 130,764	\$ 126,806	\$ 125,202	\$ 123,758	\$ 162,721
<u>(134,482)</u>	<u>(130,764)</u>	<u>(126,806)</u>	<u>(125,202)</u>	<u>(123,758)</u>	<u>(162,721)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 779,606	\$ 758,052	\$ 735,107	\$ 725,809	\$ 717,438	\$ 943,310
17.25%	17.25%	17.25%	17.25%	17.25%	17.25%

CITY OF ST MARYS, OHIO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014 - 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014 - 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014 - 2016.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014 - 2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.



Julian & Grube, Inc.
Serving Ohio Local Governments

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

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Required by *Government Auditing Standards***

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

To the Mayor and Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys, Auglaize County, Ohio, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of St. Marys' basic financial statements and have issued our report thereon dated June 23, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City of St. Marys' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City of St. Marys' internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City of St. Marys' financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Mayor and Members of Council
City of St. Marys

Compliance and Other Matters

As part of reasonably assuring whether the City of St. Marys' 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, opining 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*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City of St. Marys' internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City of St. Marys' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
June 23, 2017



Dave Yost • Auditor of State

CITY OF SAINT MARYS

AUGLAIZE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2017**