

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

*Basic
Financial Statements*
(Audited)

For The Year Ended
December 31, 2002

DOUGLAS M. RIESEN, CITY AUDITOR



**Auditor of State
Betty Montgomery**

Mayor and Members of City Council
City of Saint Marys
Saint Marys, Ohio

We have reviewed the Independent Auditor's Report of the City of Saint Marys, Auglaize County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2002 through December 31, 2002. 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 Saint Marys is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

October 17, 2003

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

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Independent Auditor’s Report

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

We have audited the accompanying basic financial statements of the City of St. Marys, Auglaize County, Ohio, (the “City”) as of and for the year ended December 31, 2002, as listed in the table of contents. These basic financial statements are the responsibility of the City’s management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of St. Marys, Auglaize County, as of December 31, 2002, and the results of its operations and its cash flows for its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3, during the year ended December 31, 2002, the City adopted Governmental Accounting Standards Board (GASB) Statement 34 Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus and GASB Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2003, on our consideration of the City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Members of Council and Mayor
City of St. Marys

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

We performed our audit to form an opinion on the basic financial statements of the City, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Trimble, Julian & Grube, Inc.
August 25, 2003

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2002 UNAUDITED

The discussion and analysis of the City of St. Marys (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2002. 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 2002 are as follows:

- The total net assets of the City increased \$3,232,342. Net assets of governmental activities increased \$2,208,768 or 9.85% over 2001 and net assets of business-type activities increased \$1,023,574 or 5.51% from 2001.
- General revenues accounted for \$5,661,829 of total governmental activities revenue. Program specific revenues accounted for \$1,112,392 or 16.43% of total governmental activities revenue.
- The City had \$3,793,802 in expenses related to governmental activities; \$1,112,392 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,681,410 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,661,829.
- The general fund had revenues of \$4,418,194 in 2002. This represents a decrease of \$269,131 from 2001 revenues. The expenditures of the general fund, which totaled \$2,799,162 in 2002, decreased \$731,851 from 2001. The net increase in fund balance for the general fund was \$119,178 or 2.74%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, Electric and Refuse enterprise funds, increased in 2002 by \$1,023,574. This increase in net assets was due primarily to operating income and an increase in capital contributions and transfers.
- In the general fund, the actual revenues came in \$233,270 lower than they were in the final budget and actual expenditures were \$800,494 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues decreased \$425,911 from the original to the final budget due primarily to a decline in projected income tax revenue. Budgeted expenditures decreased \$251,325 from the original to the final budget as a result of cost cutting measures implemented by the City.

Using this Annual Financial Report

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

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

CITY OF ST. MARYS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2002
UNAUDITED

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2002?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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.

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2002 UNAUDITED

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and the Voted Income Tax fund. The Voted Income Tax fund represents a 0.5% income tax levy earmarked for safety capital improvements. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 22-25 of this report.

Proprietary Funds

The City maintains three 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 27-34 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 35 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 36-73 of this report.

Government-Wide Financial Analysis

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

CITY OF ST. MARYS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2002
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The table below provides a summary of the City's net assets for 2002:

	Net Assets		
	Governmental Activities <u>2002</u>	Business-type Activities <u>2002</u>	Total <u>2002</u>
<u>Assets</u>			
Current and other assets	\$ 14,571,083	\$ 15,446,549	\$ 30,017,632
Capital assets	<u>12,988,984</u>	<u>20,232,487</u>	<u>33,221,471</u>
Total assets	<u>27,560,067</u>	<u>35,679,036</u>	<u>63,239,103</u>
<u>Liabilities</u>			
Long-term liabilities	1,886,476	11,221,586	13,108,062
Other liabilities	<u>1,042,665</u>	<u>4,861,997</u>	<u>5,904,662</u>
Total liabilities	<u>2,929,141</u>	<u>16,083,583</u>	<u>19,012,724</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	12,519,306	10,924,112	23,443,418
Restricted	8,193,758	5,749,558	13,943,316
Unrestricted	<u>3,917,862</u>	<u>2,921,783</u>	<u>6,839,645</u>
Total net assets	<u>\$ 24,630,926</u>	<u>\$ 19,595,453</u>	<u>\$ 44,226,379</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2002, the City's assets exceeded liabilities by \$44,226,379. At year-end, net assets were \$24,630,926 and \$19,595,453 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 52.53% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2002, was \$12,519,306 and \$10,924,112 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2002, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$13,943,316, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$3,917,862 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2002
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2002. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2001 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	<u>Governmental-type Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues			
Program revenues:			
Charges for services and sales	\$ 572,601	\$ 12,693,917	\$ 13,266,518
Operating grants and contributions	536,976	-	536,976
Capital grants and contributions	<u>2,815</u>	<u>296,616</u>	<u>299,431</u>
Total program revenues	<u>1,112,392</u>	<u>12,990,533</u>	<u>14,102,925</u>
General revenues:			
Property taxes	1,148,353	-	1,148,353
Income taxes	3,320,929	-	3,320,929
Other local taxes	300,315	-	300,315
Unrestricted grants	559,347	49,955	609,302
Gain from sale of assets	80,603	20,484	101,087
Interest	225,221	271,446	496,667
Miscellaneous	<u>27,061</u>	<u>471,467</u>	<u>498,528</u>
Total general revenues	<u>5,661,829</u>	<u>813,352</u>	<u>6,475,181</u>
Total revenues	<u>6,774,221</u>	<u>13,803,885</u>	<u>20,578,106</u>
Expenses:			
General government	664,189	-	664,189
Security of persons and property	2,074,589	-	2,074,589
Public Health and welfare	11,196	-	11,196
Transportation	631,187	-	631,187
Community environment	82,304	-	82,304
Leisure time activity	305,861	-	305,861
Interest and fiscal charges	24,476	-	24,476
Water	-	1,223,795	1,223,795
Sewer	-	1,085,887	1,085,887
Electric	-	10,420,060	10,420,060
Refuse	<u>-</u>	<u>822,220</u>	<u>822,220</u>
Total expenses	<u>3,793,802</u>	<u>13,551,962</u>	<u>17,345,764</u>
Increase in net assets before transfers	<u>2,980,419</u>	<u>251,923</u>	<u>3,232,342</u>
Transfers	<u>(771,651)</u>	<u>771,651</u>	<u>-</u>
Increase in net assets	<u>\$ 2,208,768</u>	<u>\$ 1,023,574</u>	<u>\$ 3,232,342</u>

CITY OF ST. MARYS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2002
UNAUDITED

Governmental Activities

Governmental activities net assets increased \$2,208,768 in 2002. This increase is a result of slightly decreasing expenses and an increase in income taxes versus amounts reported in the prior year.

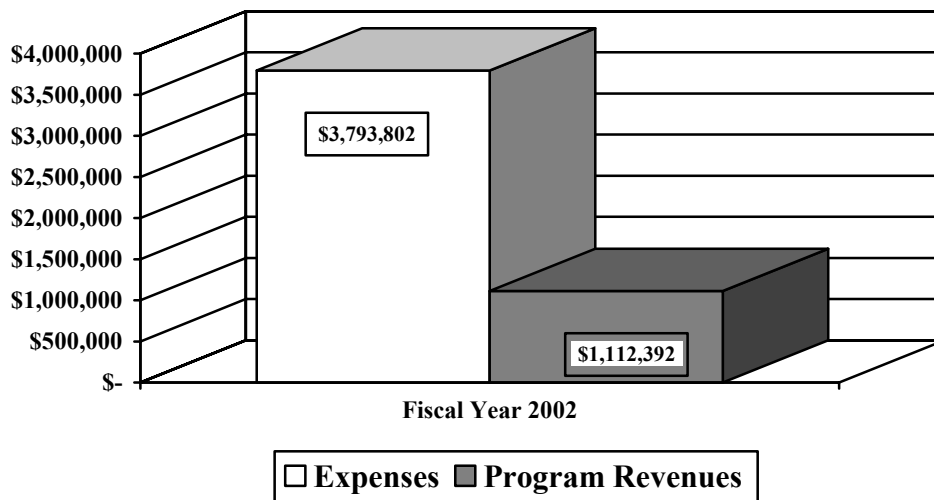
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$2,074,589 of the total expenses of the City. These expenses were partially funded by \$34,627 in direct charges to users of the services. General government expenses totaled \$664,189. General government expenses were partially funded by \$215,011 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$536,976 in operating grants and contributions and \$2,815 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating and capital grants and contributions, \$509,812, subsidized community environment programs, \$29,923 subsidized security of persons and property programs, and \$56 subsidized leisure time activities.

General revenues totaled \$5,661,829, and amounted to 83.58% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,469,282. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$559,347. In August 2001, the State placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2002.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the Graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities. Comparisons to 2001 have not been presented since they are not available.

Governmental Activities – Program Revenues vs. Total Expenses



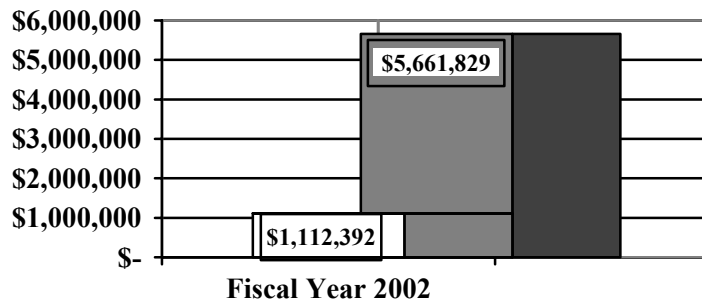
CITY OF ST. MARYS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2002
UNAUDITED

Governmental Activities

	Total Cost of Services <u>2002</u>	Net Cost of Services <u>2002</u>
Program Expenses:		
General government	\$ 664,189	\$ 449,178
Security of persons and property	2,074,589	2,010,039
Public health and welfare	11,196	(109,809)
Transportation	631,187	555,909
Community environment	82,304	(430,306)
Leisure time activity	305,861	264,311
Interest and fiscal charges	<u>24,476</u>	<u>(57,912)</u>
 Total Expenses	 <u>\$ 3,793,802</u>	 <u>\$ 2,681,410</u>

The dependence upon general revenues for governmental activities is apparent, with 70.68% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues

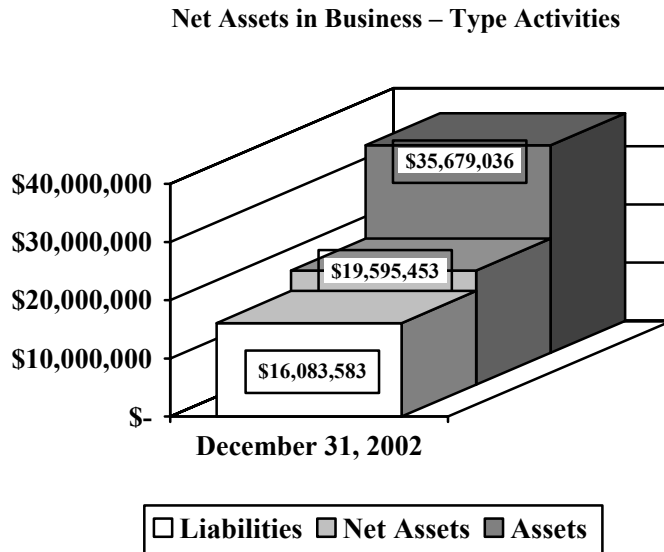


□ Program Revenues ■ General Revenues

CITY OF ST. MARYS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Business-Type Activities

Business-type activities include the water, sewer, electric and refuse enterprise funds. These programs had program revenues of \$12,990,533, general revenues of \$813,352 and expenses of \$13,551,962 for 2002. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 22) reported a combined fund balance of \$12,783,689 which is \$2,200,275 over last year's total of \$10,583,414 (as restated). The December 31, 2001 fund balances have been restated as described in Note 3 to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2002 for all major and nonmajor governmental funds.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2002
UNAUDITED**

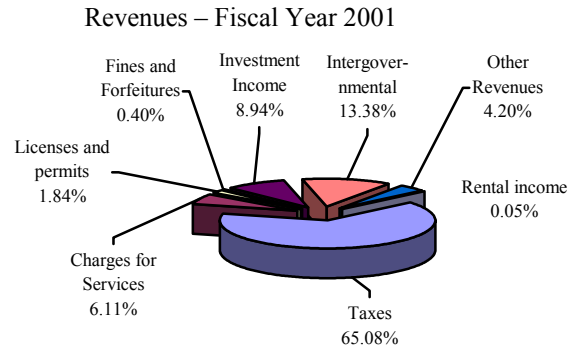
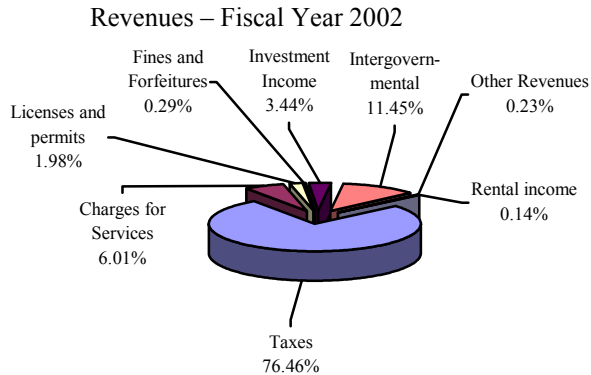
	Fund Balances <u>12/31/02</u>	Fund Balances <u>12/31/01</u>	Increase <u>(Decrease)</u>
Major Funds:			
General	\$ 4,471,990	\$ 4,350,243	\$ 121,747
Voted income tax	2,392,344	2,479,348	(87,004)
Other Nonmajor Governmental Funds	<u>5,919,355</u>	<u>3,753,823</u>	<u>2,165,532</u>
Total	<u>\$ 12,783,689</u>	<u>\$ 10,583,414</u>	<u>\$ 2,200,275</u>

General Fund

The City's general fund balance increased \$121,747, primarily due to a decrease in expenditures in the amount of \$731,851. The table that follows assists in illustrating the revenues of the general fund.

	<u>2002 Amount</u>	<u>2001 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 3,378,080	\$ 3,050,714	10.73%
Charges for services	265,634	286,425	(7.26)%
Licenses and permits	87,430	86,274	1.34%
Fines and forfeitures	12,794	18,872	(32.21)%
Investment income	151,944	418,987	(63.74)%
Rental income	6,140	2,200	179.09%
Intergovernmental	505,866	627,002	(19.32)%
Other	<u>10,306</u>	<u>196,851</u>	(94.76)%
Total	<u>\$ 4,418,194</u>	<u>\$ 4,687,325</u>	(5.74)%

Taxes revenue increased \$327,366 or 9.69% from the prior year. This increase is attributed to an increase in the income tax revenues processed by the City of St. Marys in 2002. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. The decrease in other revenue is due to a reclassification of other financing sources in 2001. All other revenue remained comparable to 2001.



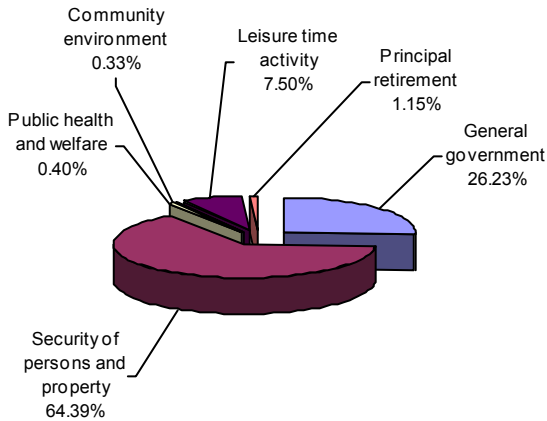
CITY OF ST. MARYS, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2002
UNAUDITED

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

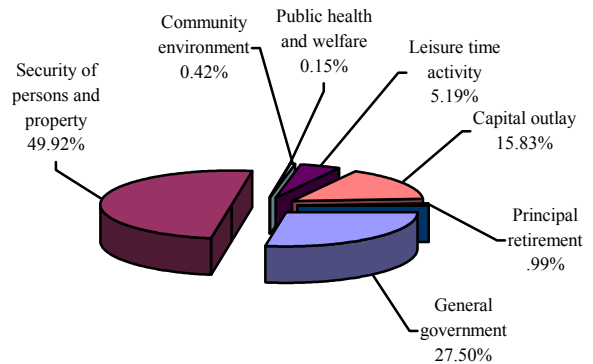
<u>Expenditures</u>	<u>2002</u> <u>Amount</u>	<u>2001</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
General government	\$ 734,298	\$ 971,044	(24.38)%
Security of persons and property	1,802,366	1,762,571	2.26%
Public health and welfare	11,196	5,452	105.36%
Community environment	9,361	14,668	(36.18)%
Leisure time activity	209,841	183,416	14.41%
Capital outlay	-	558,862	(100.00)%
Principal retirement	<u>32,100</u>	<u>35,000</u>	(8.29)%
Total	<u>\$ 2,799,162</u>	<u>\$ 3,531,013</u>	(20.73)%

The most significant decrease was in the area of capital outlay. This decrease is due to the control the City has on spending for new capital assets. The general government expenditures decreased due to a decrease in the City's payables from 2001. The increase in leisure time activity is due to an increase from the City's swimming pool. The largest expenditure line item, security of persons and property, increased slightly which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services.

Expenditures - Fiscal Year 2002



Expenditures - Fiscal Year 2001



CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2002
UNAUDITED**

Budgeting Highlights - General Fund

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

Budgetary information is presented for the general fund. In the general fund one of the most significant changes was between the original and final budgeted amount in the area of revenues, which decreased \$425,911 from \$6,849,432 to \$6,423,521. Actual revenues of \$6,190,251 fell short of final budgeted revenues by \$233,270. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$800,494 lower than the final budgeted amounts.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2002, the City had \$33,221,471 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, equipment, vehicles and infrastructure. Of this total, \$12,988,984 was reported in governmental activities and \$20,232,487 was reported in business-type activities. The following table shows fiscal 2002 balances compared to 2001:

**Capital Assets at December 31
(Net of Depreciation)**

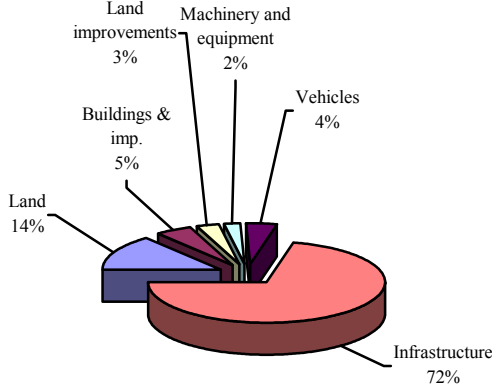
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Land	\$ 1,851,561	\$ 1,851,561	\$ 1,194,470	\$ 1,194,470	\$ 3,046,031	\$ 3,046,031
Buildings and improvements	624,034	658,875	1,840,915	1,934,067	2,464,949	2,592,942
Land improvements	424,162	212,930	3,468,436	3,426,693	3,892,598	3,639,623
Machinery and equipment	261,429	204,149	2,655,362	2,745,793	2,916,791	2,949,942
Vehicles	543,413	478,510	736,212	603,736	1,279,625	1,082,246
Infrastructure	<u>9,284,385</u>	<u>8,193,422</u>	<u>10,337,092</u>	<u>10,356,857</u>	<u>19,621,477</u>	<u>18,550,279</u>
Totals	<u>\$ 12,988,984</u>	<u>\$ 11,599,447</u>	<u>\$20,232,487</u>	<u>\$20,261,616</u>	<u>\$33,221,471</u>	<u>\$31,861,063</u>

CITY OF ST. MARYS, OHIO

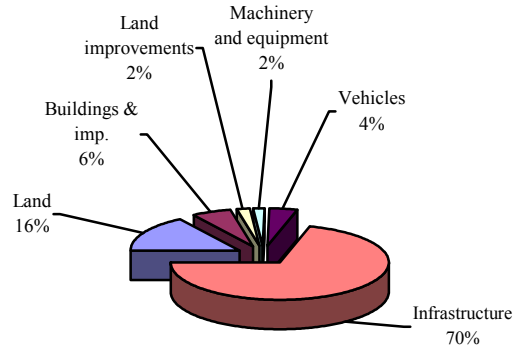
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
UNAUDITED**

The following graphs show the breakdown of governmental capital assets by category for 2002 and 2001.

Capital Assets - Governmental Activities 2002



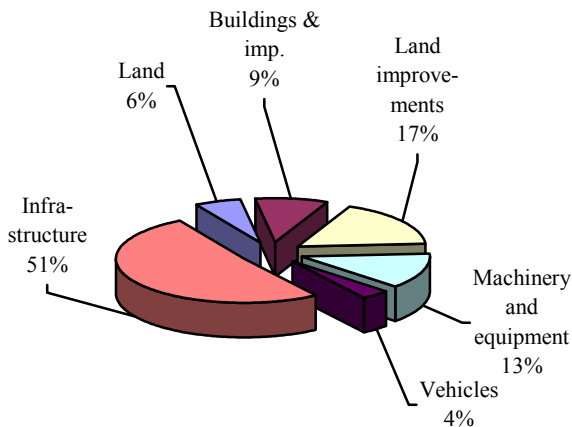
Capital Assets - Governmental Activities 2001



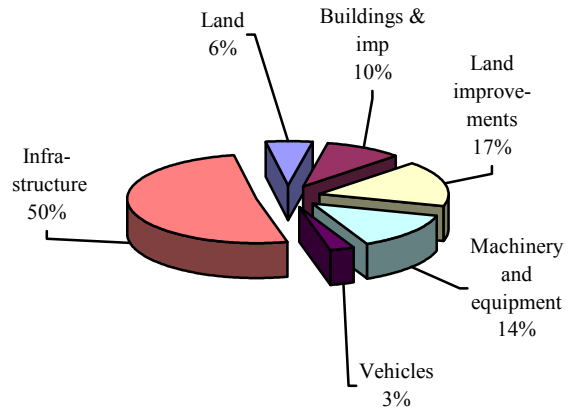
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, right-of-way, street lighting, and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 72% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2002 and 2001.

Capital Assets - Business-Type Activities 2002



Capital Assets - Business-Type Activities 2001



The City's largest business-type capital asset category is infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 51% of the City's total business-type capital assets.

CITY OF ST. MARYS, OHIO

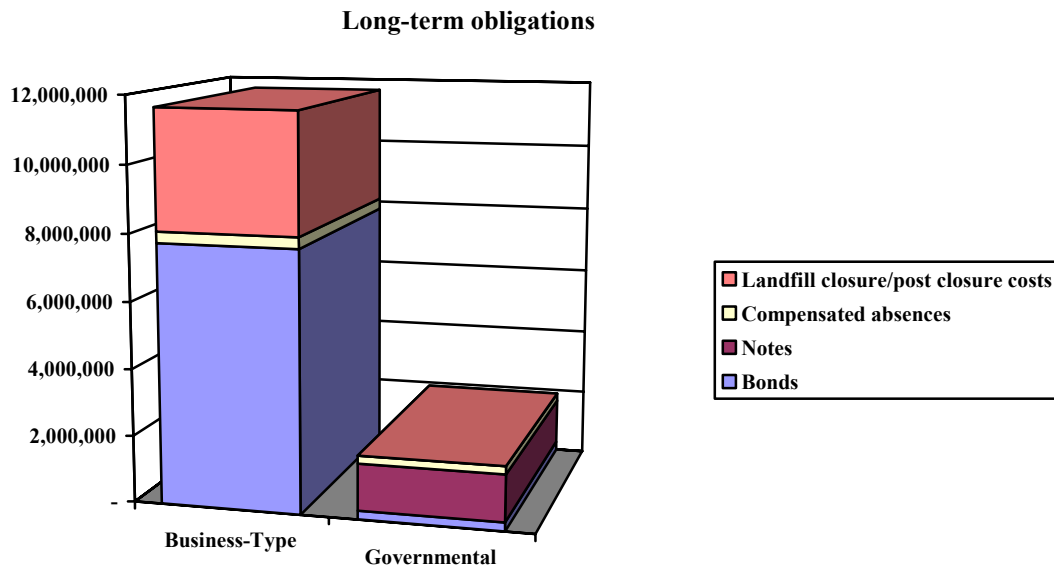
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002
UNAUDITED**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2002 and 2001:

	Governmental Activities	
	<u>2002</u>	<u>2001</u>
Bond anticipation notes	\$ 137,000	\$ 127,000
General obligation note	1,250,000	-
Special assessment bonds	<u>261,930</u>	<u>231,450</u>
Total bonds and notes	<u>1,648,930</u>	<u>358,450</u>
Compensated absences	237,546	172,450
Loans payable	-	32,100
Fire pension liability	-	<u>15,502</u>
Total long-term obligations	<u>\$ 1,886,476</u>	<u>\$ 578,502</u>
	Business-Type Activities	
	<u>2002</u>	<u>2001</u>
Revenue bonds	\$ 2,585,833	\$ 2,885,000
General obligation bonds	1,793,198	-
Mortgage revenue bonds	<u>3,381,250</u>	<u>3,740,000</u>
Total bonds	<u>7,760,281</u>	<u>6,625,000</u>
Compensated absences	336,083	290,319
Intergovernmental payable	-	75,747
Landfill closure/post closure costs	<u>3,565,930</u>	<u>3,740,508</u>
Total long-term obligations	<u>\$ 11,662,294</u>	<u>\$ 10,731,574</u>

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



CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 UNAUDITED

Economic Conditions and Outlook

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

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

Setex was the first Japanese-based company to call St. Marys home when it started the production of automotive seats for Honda in the late 1980s. Over the past 15 years, Setex has experienced tremendous growth, with employment levels increasing from the initial 65 employees to the current 550 employees. Setex also increased production capacity significantly by first doubling the size of their initial plant and later constructing a new manufacturing plant to permit production of seats for a variety of Honda automobile lines.

AAP St. Marys Corporation, a division of Hitachi Metals America Ltd., established their aluminum wheel casting plant in St. Marys in 1988. AAP St. Marys has also experienced tremendous growth, with employment levels increasing from the initial 65 employees to the current 400. Today, these 400 employees provide a key component of the stable industrial base in St. Marys.

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

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

For the Future

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

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

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 UNAUDITED

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

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

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

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

Contacting the City's Financial Management

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

BASIC
FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2002

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 11,340,678	\$ 4,810,816	\$ 16,151,494
Investments	-	261,930	261,930
Cash in segregated accounts	53,096	-	53,096
Receivables (net of allowances for uncollectibles):			
Income taxes	554,883	-	554,883
Real and other taxes	385,750	63,458	449,208
Accounts	30,407	1,129,612	1,160,019
Loans	1,338,354	-	1,338,354
Special assessments	246,379	1,673	248,052
Accrued interest	6,612	4,355	10,967
Internal balances	84,524	(84,524)	-
Due from other governments	425,686	-	425,686
Prepayments	53,553	189,728	243,281
Materials and supplies inventory	51,161	513,441	564,602
Investment in joint venture	-	1,548,398	1,548,398
Unamortized bond issuance costs	-	201,024	201,024
Restricted assets:			
Equity in pooled cash and cash equivalents	-	5,738,884	5,738,884
Deposits in segregated accounts	-	1,067,754	1,067,754
Capital assets:			
Land	1,851,561	1,194,470	3,046,031
Depreciable capital assets, net	11,137,423	19,038,017	30,175,440
Total capital assets	<u>12,988,984</u>	<u>20,232,487</u>	<u>33,221,471</u>
Total assets	<u>27,560,067</u>	<u>35,679,036</u>	<u>63,239,103</u>

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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO

STATEMENT OF NET ASSETS (CONTINUED)
DECEMBER 31, 2002

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Liabilities:			
Accounts payable	43,799	582,517	626,316
Accrued wages and benefits	62,847	61,032	123,879
Contracts payable	41,590	94,894	136,484
Retainage payable	36,168	1,316	37,484
Claims payable	139,583	-	139,583
Judgements payable	8,500	-	8,500
Deferred revenue	612,745	-	612,745
Due to other governments	89,285	27,216	116,501
Accrued interest payable	8,148	114,223	122,371
Notes payable	-	3,782,000	3,782,000
Payable from restricted assets:			
Accrued interest payable	-	27,266	27,266
Refundable deposits	-	171,533	171,533
Long-term liabilities:			
Due within one year	1,588,017	823,259	2,411,276
Due in more than one year	298,459	10,398,327	10,696,786
Total liabilities	<u>2,929,141</u>	<u>16,083,583</u>	<u>19,012,724</u>
Net assets:			
Invested in capital assets, net of related debt	12,519,306	10,924,112	23,443,418
Restricted for:			
Capital projects	5,665,855	-	5,665,855
Debt service	36,979	-	36,979
Operations	-	3,691,745	3,691,745
Improvements and replacements	-	2,057,813	2,057,813
Other purposes	2,490,924	-	2,490,924
Unrestricted	<u>3,917,862</u>	<u>2,921,783</u>	<u>6,839,645</u>
Total net assets	<u>\$ 24,630,926</u>	<u>\$ 19,595,453</u>	<u>\$ 44,226,379</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF ST. MARYS, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 664,189	\$ 215,011	\$ -	\$ -
Security of persons and property.	2,074,589	34,627	27,108	2,815
Public health and welfare	11,196	121,005	-	-
Transportation	631,187	75,278	-	-
Community environment.	82,304	2,798	509,812	-
Leisure time activity.	305,861	41,494	56	-
Interest and fiscal charges.	24,476	82,388	-	-
Total governmental activities	<u>3,793,802</u>	<u>572,601</u>	<u>536,976</u>	<u>2,815</u>
Business-type Activities:				
Water	1,223,795	1,198,378	-	264,502
Sewer	1,085,887	1,213,909	-	32,114
Electric	10,420,060	9,680,309	-	-
Refuse	822,220	601,321	-	-
Total business-type activities	<u>13,551,962</u>	<u>12,693,917</u>	<u>-</u>	<u>296,616</u>
Total primary government	<u>\$ 17,345,764</u>	<u>\$ 13,266,518</u>	<u>\$ 536,976</u>	<u>\$ 299,431</u>

General Revenues:

Property taxes levied for:	
General purposes.	
Police and fire pension.	
Income taxes levied for:	
General purposes.	
Capital projects	
Other local taxes	
Grants and entitlements not restricted to specific programs	
Gain from sale of capital assets	
Investment earnings	
Miscellaneous	
Total general revenues	
Transfers.	
Change in net assets.	
Net assets at beginning of year	
Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (449,178)	\$ -	\$ (449,178)
(2,010,039)	-	(2,010,039)
109,809	-	109,809
(555,909)	-	(555,909)
430,306	-	430,306
(264,311)	-	(264,311)
57,912	-	57,912
<u>(2,681,410)</u>	<u>-</u>	<u>(2,681,410)</u>
-	239,085	239,085
-	160,136	160,136
-	(739,751)	(739,751)
-	(220,899)	(220,899)
<u>-</u>	<u>(561,429)</u>	<u>(561,429)</u>
<u>(2,681,410)</u>	<u>(561,429)</u>	<u>(3,242,839)</u>
1,072,919	-	1,072,919
75,434	-	75,434
2,275,887	-	2,275,887
1,045,042	-	1,045,042
300,315	-	300,315
559,347	49,955	609,302
80,603	20,484	101,087
225,221	271,446	496,667
27,061	471,467	498,528
<u>5,661,829</u>	<u>813,352</u>	<u>6,475,181</u>
<u>(771,651)</u>	<u>771,651</u>	<u>-</u>
2,208,768	1,023,574	3,232,342
<u>22,422,158</u>	<u>18,571,879</u>	<u>40,994,037</u>
<u>\$ 24,630,926</u>	<u>\$ 19,595,453</u>	<u>\$ 44,226,379</u>

CITY OF ST. MARYS, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2002

	<u>General</u>	<u>Voted Income Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 4,183,002	\$ 2,396,850	\$ 4,584,142	\$ 11,163,994
Receivables (net of allowance for uncollectibles):				
Income taxes.	371,771	183,112	-	554,883
Real and other taxes.	305,140	-	80,610	385,750
Accounts	27,910	-	17	27,927
Loans	-	-	1,338,354	1,338,354
Special assessments.	-	-	246,379	246,379
Accrued interest	5,014	99	1,489	6,602
Due from other funds	60,764	9,145	-	69,909
Due from other governments	255,023	-	170,663	425,686
Prepayments.	43,155	-	10,398	53,553
Materials and supplies inventory	32,663	-	10,178	42,841
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Total assets	\$ 5,284,442	\$ 2,589,206	\$ 6,442,230	\$ 14,315,878
	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities:				
Accounts payable	\$ 20,854	\$ 13,836	\$ 6,377	\$ 41,067
Contracts payable	-	41,590	-	41,590
Retainage payable	-	36,168	-	36,168
Judgements payable.	8,500	-	-	8,500
Accrued wages and benefits.	48,618	1,468	11,764	61,850
Deferred revenue	715,743	103,128	435,277	1,254,148
Due to other governments.	18,737	672	69,457	88,866
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Total liabilities	812,452	196,862	522,875	1,532,189
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances:				
Reserved for encumbrances.	148,289	127,221	1,485,287	1,760,797
Reserved for materials and supplies inventory	32,663	-	10,178	42,841
Reserved for prepayments	43,155	-	10,398	53,553
Reserved for loans	-	-	1,338,354	1,338,354
Unreserved, undesignated, reported in:				
General fund.	4,247,883	-	-	4,247,883
Special revenue funds.	-	-	986,110	986,110
Debt service fund	-	-	33,992	33,992
Capital projects funds.	-	2,265,123	2,055,036	4,320,159
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Total fund balances	4,471,990	2,392,344	5,919,355	12,783,689
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Total liabilities and fund balances.	\$ 5,284,442	\$ 2,589,206	\$ 6,442,230	\$ 14,315,878
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2002

Total governmental fund balances \$ 12,783,689

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

Capital assets used in governmental activities (excluding internal service funds capital assets) are not financial resources and therefore are not reported in the funds. 12,925,303

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

Property taxes	\$ 11,402
Income taxes	312,208
Special assessments	7,596
Intergovernmental revenues	305,083
Interest	<u>5,114</u>

Total 641,403

The internal service funds are used by management to charge the costs of insurance and the City parking garage to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net assets of the internal service funds, including internal balances of \$14,615, are: 168,786

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

Special assessment bonds	(261,930)
Bond anticipation notes	(137,000)
General obligation notes	(1,250,000)
Compensated absences	(231,177)
Accrued interest	<u>(8,148)</u>

Total (1,888,255)

Net assets of governmental activities \$ 24,630,926

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>General</u>	<u>Voted Income Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 2,305,124	\$ 1,059,441	\$ -	\$ 3,364,565
Real and other taxes	1,072,956	-	75,314	1,148,270
Charges for services	265,634	-	37,994	303,628
Licenses, permits and fees	87,430	-	-	87,430
Fines and forfeitures	12,794	-	1,443	14,237
Special assessments	-	-	82,550	82,550
Intergovernmental	505,866	-	931,945	1,437,811
Investment income	151,944	45,081	74,552	271,577
Rental income	6,140	-	-	6,140
Other	10,306	10,890	9,365	30,561
Total revenues	4,418,194	1,115,412	1,213,163	6,746,769
Expenditures:				
Current:				
General government	734,298	-	-	734,298
Security of persons and property	1,802,366	-	255,095	2,057,461
Public health and welfare	11,196	-	-	11,196
Transportation	-	-	526,397	526,397
Community environment	9,361	-	34,730	44,091
Leisure time activity	209,841	-	58,192	268,033
Capital outlay	-	1,141,416	309,033	1,450,449
Debt service:				
Principal retirement	32,100	-	193,520	225,620
Interest and fiscal charges	-	-	18,195	18,195
Total expenditures	2,799,162	1,141,416	1,395,162	5,335,740
Excess (deficiency) of revenues over (under) expenditures	1,619,032	(26,004)	(181,999)	1,411,029
Other financing sources (uses):				
Proceeds from sale of capital assets	90,970	-	-	90,970
Proceeds from sale of bonds	-	-	97,000	97,000
Proceeds from sale of notes	-	-	1,387,000	1,387,000
Transfers in	-	-	880,173	880,173
Transfers out	(1,590,824)	(61,000)	-	(1,651,824)
Total other financing sources (uses)	(1,499,854)	(61,000)	2,364,173	803,319
Net change in fund balances	119,178	(87,004)	2,182,174	2,214,348
Fund balances at beginning of year (restated)	4,350,243	2,479,348	3,753,823	10,583,414
Increase (decrease) in reserve for inventory	2,569	-	(16,642)	(14,073)
Fund balances at end of year	\$ 4,471,990	\$ 2,392,344	\$ 5,919,355	\$ 12,783,689

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2002

Net change in fund balances - total governmental funds \$ 2,214,348

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,152,832) exceeded depreciation expense (\$746,474) in the current period. Both amounts are exclusive of internal service funds activity.	1,406,358
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(10,367)
Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed.	(14,073)
Proceeds of bonds and notes are reported as an other financing source in the governmental funds, but as an increase in liabilities in governmental activities.	(1,484,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(55,333)
Repayment of bonds, notes and loans principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	225,620
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.	(6,281)
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.	(58,727)
The internal service funds used by management to charge the costs of insurance and the City parking garage to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds, including internal balances of \$14,615, is allocated among the governmental activities.	(8,777)

Change in net assets of governmental activities. \$ 2,208,768

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Income taxes	\$ 2,566,271	\$ 2,406,695	\$ 2,319,296	\$ (87,399)
Real and other taxes	1,177,648	1,104,420	1,064,313	(40,107)
Charges for services	295,298	276,936	266,879	(10,057)
Licenses, permits and fees	97,956	91,865	88,529	(3,336)
Fines and forfeitures	14,156	13,276	12,794	(482)
Intergovernmental	648,779	608,436	586,341	(22,095)
Investment income	186,446	174,853	168,503	(6,350)
Rental income	6,794	6,371	6,140	(231)
Other	11,979	11,234	10,825	(409)
Total revenues	<u>5,005,327</u>	<u>4,694,086</u>	<u>4,523,620</u>	<u>(170,466)</u>
Expenditures:				
Current:				
General government	1,140,487	1,101,644	977,387	124,257
Security of persons and property	2,193,020	2,117,958	1,879,068	238,890
Public health and welfare	9,172	8,858	7,859	999
Community environment	11,637	11,239	9,971	1,268
Leisure time activities	261,058	252,122	223,685	28,437
Debt service:				
Principal retirement	37,463	36,181	32,100	4,081
Total expenditures	<u>3,652,837</u>	<u>3,528,002</u>	<u>3,130,070</u>	<u>397,932</u>
Excess of revenues over expenditures	<u>1,352,490</u>	<u>1,166,084</u>	<u>1,393,550</u>	<u>227,466</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	100,657	94,398	90,970	(3,428)
Transfers in	1,743,448	1,635,037	1,575,661	(59,376)
Transfers out	(3,695,537)	(3,569,047)	(3,166,485)	402,562
Other financing sources	-	-	-	-
Total other financing sources (uses)	<u>(1,851,432)</u>	<u>(1,839,612)</u>	<u>(1,499,854)</u>	<u>339,758</u>
Net change in fund balance	(498,942)	(673,528)	(106,304)	567,224
Fund balance at beginning of year	3,840,786	3,840,786	3,840,786	-
Prior year encumbrances appropriated	285,126	285,126	285,126	-
Fund balance at end of year	<u>\$ 3,626,970</u>	<u>\$ 3,452,384</u>	<u>\$ 4,019,608</u>	<u>\$ 567,224</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF ST. MARYS, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2002

	Business-type Activities -		
	Water	Sewer	Electric
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 808,699	\$ 1,168,330	\$ 1,870,449
Investments	-	-	261,930
Cash in segregated accounts	-	-	-
Receivables (net of allowance for uncollectibles):			
Real and other taxes	-	-	63,458
Accounts	80,033	83,559	896,023
Special assessments	754	919	-
Accrued interest	891	181	3,283
Prepayments	25,913	26,416	129,534
Materials and supplies inventory	147,270	25,596	335,146
Unamortized bond issuance costs	19,534	61,565	119,925
Total current assets	1,083,094	1,366,566	3,679,748
Noncurrent assets:			
Cash and cash equivalents	964,051	389,008	4,385,825
Cash with fiscal and escrow agents	157,937	326,833	582,984
Investment in joint venture	-	-	1,548,398
Capital assets:			
Land	232,462	144,500	513,813
Depreciable capital assets, net	4,415,554	3,955,362	8,647,148
Total capital assets	4,648,016	4,099,862	9,160,961
Total noncurrent assets	5,770,004	4,815,703	15,678,168
Total assets	6,853,098	6,182,269	19,357,916
Liabilities:			
Current liabilities:			
Accounts payable	3,604	730	557,380
Contracts payable	-	-	-
Retainage payable	-	-	1,316
Accrued wages and benefits	8,223	12,116	34,389
Due to other funds	-	-	69,909
Due to other governments	3,737	4,606	16,320
Accrued interest payable	-	-	99,537
Payable from restricted assets:			
Current portion of revenue bonds	73,333	192,500	-
Current portion of mortgage revenue bonds	-	-	316,250
Accrued interest payable	5,044	6,904	15,318
Refundable deposits	-	-	171,533
Notes payable	-	-	2,600,000
Claims payable	-	-	-
Total current liabilities	93,941	216,856	3,881,952
Long-term liabilities:			
Compensated absences	86,226	53,023	167,407
Revenue bonds payable	850,000	1,297,018	2,797,274
General obligation bonds payable	-	-	1,793,198
Landfill closure/post closure liability	-	-	-
Total long-term liabilities	936,226	1,350,041	4,757,879
Total liabilities	1,030,167	1,566,897	8,639,831
Net assets:			
Invested in capital assets, net of related debt	3,724,683	2,610,344	3,447,437
Restricted for operations	409,757	256,125	3,025,863
Restricted for improvements and replacements	666,718	348,253	1,042,842
Unrestricted	1,021,773	1,400,650	3,201,943
Total net assets	\$ 5,822,931	\$ 4,615,372	\$ 10,718,085

Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.
Net assets of business-type activities.

<u>Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>	
<u>Refuse</u>	<u>Total</u>		
\$ 963,338	\$ 4,810,816	\$ 176,684	
-	261,930	-	
-	-	53,096	
-	63,458	-	
69,997	1,129,612	2,480	
-	1,673	-	
-	4,355	10	
7,865	189,728	-	
5,429	513,441	8,320	
-	201,024	-	
<u>1,046,629</u>	<u>7,176,037</u>	<u>240,590</u>	
-	5,738,884	-	
-	1,067,754	-	
-	1,548,398	-	
303,695	1,194,470	-	
2,019,953	19,038,017	63,681	
<u>2,323,648</u>	<u>20,232,487</u>	<u>63,681</u>	
<u>2,323,648</u>	<u>28,587,523</u>	<u>63,681</u>	
<u>3,370,277</u>	<u>35,763,560</u>	<u>304,271</u>	
20,803	582,517	2,732	
94,894	94,894	-	
-	1,316	-	
6,304	61,032	997	
-	69,909	-	
2,553	27,216	419	
14,686	114,223	-	
-	265,833	-	
-	316,250	-	
-	27,266	-	
-	171,533	-	
1,182,000	3,782,000	-	
-	-	139,583	
<u>1,321,240</u>	<u>5,513,989</u>	<u>143,731</u>	
29,427	336,083	6,369	
-	4,944,292	-	
-	1,793,198	-	
<u>3,565,930</u>	<u>3,565,930</u>	<u>-</u>	
<u>3,595,357</u>	<u>10,639,503</u>	<u>6,369</u>	
<u>4,916,597</u>	<u>16,153,492</u>	<u>150,100</u>	
1,141,648	10,924,112	63,681	
-	3,691,745	-	
-	2,057,813	-	
(2,687,968)	2,936,398	90,490	
<u>\$ (1,546,320)</u>	<u>19,610,068</u>	<u>\$ 154,171</u>	
	(14,615)		
	<u>\$ 19,595,453</u>		

CITY OF ST. MARYS, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Business-type Activities -		
	Water	Sewer	Electric
Operating revenues:			
Charges for services	\$ 1,195,928	\$ 1,202,891	\$ 9,680,309
Tap-in fees	2,450	11,018	-
Rental income	989	710	12,072
Other operating revenues	45,486	5,236	140,334
Total operating revenues	1,244,853	1,219,855	9,832,715
Operating expenses:			
Personal services	581,834	524,639	1,622,137
Contract services	78,959	99,699	584,748
Materials and supplies	226,945	95,383	6,931,420
Claims expense	-	-	-
Utilities	57,423	54,556	50,645
Depreciation	208,170	194,406	564,933
Other operating expenses	2,069	944	22,172
Total operating expenses	1,155,400	969,627	9,776,055
Operating income (loss)	89,453	250,228	56,660
Nonoperating revenues (expenses):			
Interest expense and fiscal charges	(66,101)	(114,534)	(472,432)
Gain from disposal of capital assets	455	244	8,788
Interest revenue	24,277	29,179	207,615
Other local tax revenue	853	893	47,697
Other nonoperating expense	-	-	(30,480)
Excise tax expense	-	-	(45,127)
Investment in joint venture	-	-	(90,062)
Total nonoperating revenues (expenses)	(40,516)	(84,218)	(374,001)
Income (loss) before contributions and transfers	48,937	166,010	(317,341)
Capital contributions	264,502	32,114	-
Transfers in	-	-	731,651
Changes in net assets	313,439	198,124	414,310
Net assets at beginning of year (restated)	5,509,492	4,417,248	10,303,775
Net assets at end of year	\$ 5,822,931	\$ 4,615,372	\$ 10,718,085

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

Changes in net assets of business-type

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Enterprise Funds		Governmental Activities - Internal Service Funds
Refuse	Total	
\$ 601,321	\$ 12,680,449	\$ 921,253
-	13,468	-
265,497	279,268	-
1,144	192,200	2,361
<u>867,962</u>	<u>13,165,385</u>	<u>923,614</u>
317,573	3,046,183	58,276
330,228	1,093,634	75
20,448	7,274,196	192,125
-	-	691,170
6,784	169,408	774
108,044	1,075,553	6,454
1,075	26,260	314
<u>784,152</u>	<u>12,685,234</u>	<u>949,188</u>
<u>83,810</u>	<u>480,151</u>	<u>(25,574)</u>
(33,378)	(686,445)	-
10,997	20,484	-
10,375	271,446	2,182
512	49,955	-
-	(30,480)	-
-	(45,127)	-
-	(90,062)	-
<u>(11,494)</u>	<u>(510,229)</u>	<u>2,182</u>
72,316	(30,078)	(23,392)
-	296,616	-
40,000	771,651	-
<u>112,316</u>	<u>1,038,189</u>	<u>(23,392)</u>
<u>(1,658,636)</u>		<u>177,563</u>
<u>\$ (1,546,320)</u>		<u>\$ 154,171</u>
	<u>(14,615)</u>	
	<u>\$ 1,023,574</u>	

CITY OF ST. MARYS, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Business-type Activities -	
	Water	Sewer
Cash flows from operating activities:		
Cash received from charges for services	\$ 1,233,829	\$ 1,247,532
Cash received from tap-in fees.	2,450	11,018
Cash received from rental charges	-	710
Cash received from other operations.	45,264	5,266
Cash payments for personal services	(582,224)	(528,495)
Cash payments for contract services.	(95,374)	(121,954)
Cash payments for materials and supplies.	(198,491)	(104,089)
Cash payments for utilities.	(57,423)	(54,556)
Cash payments for claims expense.	-	-
Cash payments for other expenses.	(2,069)	(944)
Net cash provided by (used in) operating activities.	<u>345,962</u>	<u>454,488</u>
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies	853	893
Cash used in other nonoperating activities	-	-
Transfers in from other funds	-	-
Transfers out to other funds.	-	-
Net cash provided by noncapital financing activities	<u>853</u>	<u>893</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(340,879)	(37,519)
Capital contributions	264,502	32,114
Gain on sale of capital assets.	455	244
Cash received from proceeds of notes	-	-
Cash payments for principal retirement.	(76,667)	(222,500)
Cash payments for interest and fiscal charges	(64,286)	(85,431)
Net cash used in capital and related financing activities	<u>(216,875)</u>	<u>(313,092)</u>
Cash flows from investing activities:		
Purchase of investment	-	-
Proceeds from sale and maturities of investments.	-	-
Interest received.	25,733	29,365
Net cash provided by investing activities.	<u>25,733</u>	<u>29,365</u>
Net increase (decrease) in cash and cash equivalents	155,673	171,654
Cash and cash equivalents at beginning of year (restated)	1,775,014	1,712,517
Cash and cash equivalents at end of year.	<u>\$ 1,930,687</u>	<u>\$ 1,884,171</u>

Electric	Enterprise Funds		Governmental
	Refuse	Total	Activities - Internal Service Funds
\$ 9,580,752	\$ 600,469	\$ 12,662,582	\$ 921,253
-	-	13,468	-
12,522	262,114	275,346	-
249,307	1,144	300,981	3
(1,645,329)	(320,506)	(3,076,554)	(58,435)
(703,623)	(409,969)	(1,330,920)	(75)
(7,173,318)	(18,735)	(7,494,633)	(198,160)
(50,645)	(6,784)	(169,408)	(774)
-	-	-	(702,216)
(23,476)	(1,075)	(27,564)	-
246,190	106,658	1,153,298	(38,404)
2,570	512	4,828	-
(30,480)	-	(30,480)	-
1,031,651	40,000	1,071,651	-
(300,000)	-	(300,000)	-
703,741	40,512	745,999	-
(405,980)	(262,046)	(1,046,424)	-
-	-	296,616	-
8,788	10,997	20,484	-
2,600,000	1,182,000	3,782,000	-
(3,121,365)	(1,300,000)	(4,720,532)	-
(346,020)	(41,600)	(537,337)	-
(1,264,577)	(410,649)	(2,205,193)	-
(97,000)	-	(97,000)	-
66,520	-	66,520	-
213,141	10,375	278,614	2,172
182,661	10,375	248,134	2,172
(131,985)	(253,104)	(57,762)	(36,232)
6,971,243	1,216,442	11,675,216	266,012
<u>\$ 6,839,258</u>	<u>\$ 963,338</u>	<u>\$ 11,617,454</u>	<u>\$ 229,780</u>

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CITY OF ST. MARYS, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Business-type Activities -</u>	
	<u>Water</u>	<u>Sewer</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 89,453	\$ 250,228
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	208,170	194,406
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	36,709	44,484
(Increase) decrease in special assessments receivable	(19)	187
(Increase) decrease in materials and supplies inventory	30,319	(2,047)
(Increase) decrease in prepayments	(11,252)	(11,562)
Increase (decrease) in accounts payable	(4,609)	(9,768)
Increase in accrued wages and benefits	542	2,198
Increase in compensated absences payable	10,764	6,356
Increase (decrease) in contracts payable	-	(5,405)
Increase in retainage payable	-	-
Decrease in due to other governments	(11,696)	(12,410)
Increase (decrease) in due to other funds	(2,419)	(2,179)
Decrease in claims payable	-	-
Increase in refundable deposits liability	-	-
Decrease in landfill closure/post closure liability	-	-
Net cash provided by (used in) operating activities	<u>\$ 345,962</u>	<u>\$ 454,488</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Electric</u>	<u>Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>
	<u>Refuse</u>	<u>Total</u>	
\$ 56,660	\$ 83,810	\$ 480,151	\$ (25,574)
564,933	108,044	1,075,553	6,454
(49,259)	(4,235)	27,699	(2,358)
-	-	168	-
(26,461)	(2,815)	(1,004)	(3,451)
(59,785)	1,380	(81,219)	-
(206,276)	5,332	(215,321)	(2,270)
4,532	798	8,070	128
9,245	3,505	29,870	960
(1,455)	94,894	88,034	-
1,316	-	1,316	-
(67,458)	(9,477)	(101,041)	(1,247)
9,145	-	4,547	-
-	-	-	(11,046)
11,053	-	11,053	-
-	(174,578)	(174,578)	-
<u>\$ 246,190</u>	<u>\$ 106,658</u>	<u>\$ 1,153,298</u>	<u>\$ (38,404)</u>

CITY OF ST. MARYS, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2002

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 70,084
Receivables:	
Income taxes	<u>1,643,659</u>
Total assets	<u>\$ 1,713,743</u>
Liabilities:	
Due to other governments.	\$ 1,643,659
Payroll withholdings.	33,691
Undistributed assets	<u>36,393</u>
Total liabilities	<u>\$ 1,713,743</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 1 - DESCRIPTION OF THE CITY

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to influence significantly the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City in 2002. The following organizations are described due to their relationship to the City:

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

JOINT VENTURE WITH EQUITY INTEREST

Ohio Municipal Electric Generation Agency Joint Venture

The City's Electric Enterprise Fund participates in a joint venture agreement with 36 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2) for the purpose of providing electric power and energy to its participants on a cooperative basis. OMEGA JV2 is organized, existing and authorized by Article XVIII, Section 3 and 4 of the Ohio Constitution in the manner contemplated by Section 715.02 of the Ohio Revised Code and other applicable provisions of Ohio law. OMEGA JV2 was formed on November 21, 2000, and its existence was ratified on December 7, 2000.

OMEGA JV2 is a 138.650 MW project that includes two 32 MW used gas-fired turbines, one 11 MW used gas-fired turbine, and thirty-four 1.825 MW new and one 1.6 MW used oil-fired diesel generator units. Title to this project was transferred to the 36 municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's 85 municipal electric systems. Each member has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. In accordance with the joint venture agreement, the City remitted \$135,132 to the joint venture for 2002.

The following is a summary of audited financial information of OMEGA JV2 for the year ended December 31, 2002:

	<u>OMEGA JV2</u>
Total Assets	\$ 52,473,954
Total Liabilities	<u>514,292</u>
Members Equity	<u>\$ 51,959,662</u>
Total Revenues	\$ 2,308,497
Total Expenses	<u>5,330,727</u>
Excess Income (under) Expenses	<u>\$ (3,022,230)</u>

The City is a financing participant in the joint venture, meaning it will finance its project shares (ownership interest) with a portion of the proceeds from a debt issuance. The City is also a purchasing participant in the joint venture, meaning it will purchase power and energy from OMEGA JV2 and its undivided ownership interest will be held in trust by the owner participants acting as trustee. The City's undivided ownership of OMEGA JV2 is 2.98 percent.

The City reports an equity interest equal to their undivided ownership percentage of the joint venture members equity. Since the City has an explicit and measurable interest in OMEGA JV2, the City has reported \$1,548,398 in equity interest for this joint venture on the combined balance sheet at December 31, 2002. Separate financial statement for the joint venture is available through either the City or AMP-Ohio.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

The following tables show the major participants and percentage of ownership for the JV2 project:

<u>OMEGA JV2</u>	
<u>Participants</u>	<u>Percentage of Ownership</u>
Hamilton	23.87
Bowling Green	14.32
Niles	11.49
Cuyahoga Falls	7.46
Wadsworth	5.81
Painesville	5.22
Galion	4.29
St. Marys	2.98
Other	<u>24.56</u>
Total	<u>100.00</u>

INSURANCE PURCHASING POOL

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

B. Basis of Presentation - Fund Accounting

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

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

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

C. Fund Accounting

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

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

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

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

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

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:

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

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

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

E. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

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

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

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

F. Budgetary Process

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

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

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

Estimated Resources - The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include the actual unencumbered fund balances from the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines that revenue to be collected will be greater than or less than prior estimates and the County Budget Commission find the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the final amended official certificate of estimated resources issued during 2002.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

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

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

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

G. Cash and Investments

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

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

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

Investments are reported at fair value, except for repurchase agreements and non-negotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2002.

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 2002 was \$151,944, which includes \$47,824 assigned from other City funds.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

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

H. Loans Receivable

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

I. Inventories of Materials and Supplies

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

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

J. Capital Assets

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

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	50 years	50 years
Buildings	50 years	50 years
Building improvements	20 years	20 years
Machinery and equipment	10 years	10 years
Vehicles	6 – 10 years	6 - 10 years
Infrastructure	30 years	65 years

K. Compensated Absences

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

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

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

M. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

N. Interfund Balances

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

O. Interfund Activity

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

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

P. Fund Balance Reserves

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

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

Q. Restricted Assets

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

Restricted assets also represent utility deposits from customers that are restricted because their use is limited to the payment of unpaid utility bills or refunding the deposit to the customer.

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

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

R. Unamortized Bond Issuance Costs

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

S. Unamortized Gain/Loss on Advance Refunding

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

T. Estimates

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

U. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

V. Net Assets

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

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

W. Operating Revenues and Expenses

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

X. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2002.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2002, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At December 31, 2001, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2001, caused by the elimination of the internal service funds and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - A certain fund has been reclassified to properly reflect its intended purpose in accordance with the standards of GASB No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balances as previously reported at December 31, 2001.

	<u>General</u>	Voted <u>Income Tax</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance				
December 31, 2001	\$ 4,322,720	\$ 2,479,348	\$ 3,748,283	\$ 10,550,351
Fund reclassification	-	-	1,528	1,528
GASB Interpretation No. 6 adjustments	<u>27,523</u>	<u>-</u>	<u>4,012</u>	<u>31,535</u>
Restated fund balance				
December 31, 2001	<u>\$ 4,350,243</u>	<u>\$ 2,479,348</u>	<u>\$ 3,753,823</u>	<u>\$ 10,583,414</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The transition from governmental fund balance to net assets of the governmental activities is also presented.

Restated fund balance	
December 31, 2001	\$ 10,583,414
GASB Statement No. 34 adjustments:	
Capital assets	11,529,312
Internal service funds	177,563
Long-term liabilities	(563,000)
Accrued interest	(1,867)
Long-term (deferred assets)	<u>696,736</u>
Governmental activities net	
assets, January 1, 2002	<u>\$ 22,422,158</u>

Business-Type Activities - Fund Reclassification and Restatement of Fund Balance

A fund reclassification in the enterprise funds is required to properly reflect the intended purpose of the swimming pool fund. Business type activities have been restated at December 31, 2001, to properly include the OMEGA JV2 general obligation bonds as a liability in the enterprise funds, to properly state claims payable in the internal service funds and to correct an overstatement of the City's cash and investments in the prior years. In addition, a restatement is required to state capital assets in accordance with the City's new capitalization threshold of \$5,000 (See Note 10.A. for detail) and for errors and omissions reported in prior years.

The fund reclassification and restatements had the following effect on fund balance of the business-type activities as previously reported:

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Refuse</u>	<u>Swimming Pool</u>	<u>Total</u>
Fund equity as previously reported	\$ 5,217,075	\$ 4,684,598	\$ 11,836,498	\$ (3,366,535)	\$ 73,981	\$ 18,445,617
Fund reclassification	-	-	-	-	(73,981)	(73,981)
Adjustment for cash and investments	-	-	(231,450)	-	-	(231,450)
Adjustment for general obligation bonds	-	-	(1,855,813)	-	-	(1,855,813)
Adjustment for capital assets	<u>292,417</u>	<u>(267,350)</u>	<u>554,540</u>	<u>1,707,899</u>	<u>-</u>	<u>2,287,506</u>
Business-type activities, January 1, 2002	<u>\$ 5,509,492</u>	<u>\$ 4,417,248</u>	<u>\$ 10,303,775</u>	<u>\$ (1,658,636)</u>	<u>\$ -</u>	<u>\$ 18,571,879</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	<u>Internal Service Funds</u>
Fund equity as previously reported	\$ 113,413
Adjustment for claims payable	42,828
Adjustment for capital assets	<u>21,322</u>
Restated net assets as of January 1, 2002	<u>\$ 177,563</u>

B. Deficit Fund Balance/Retained Earnings

<u>Major Enterprise Fund</u>	
Refuse	\$ 1,549,949
 <u>Nonmajor Governmental Funds</u>	
Police Pension	29,275
Fire Pension	31,611

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

Interim monies may be deposited or invested in the following:

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

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

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

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

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

Deposits: At year-end, the carrying amount of the City's deposits, was \$14,581,480 and the bank balance was \$15,131,130. Of the bank balance:

1. \$553,096 was covered by federal depository insurance; and
2. \$14,578,034 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category 1	Category 3	Fair Value
Manuscript bonds	\$ 261,930	\$ -	\$ 261,930
Repurchase agreement	-	890,636	890,636
	\$ 261,930	\$ 890,636	
Money-market mutual funds			500,363
Investments in STAR Ohio			7,108,833
Total Investments			\$ 8,761,762

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

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

	<u>Cash and Cash</u> <u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 23,081,312	\$ 261,930
Investments of the cash management pool:		
Repurchase agreement	(890,636)	890,636
Money-market mutual funds	(500,363)	500,363
Investments in STAR Ohio	<u>(7,108,833)</u>	<u>7,108,833</u>
GASB Statement No. 3	<u>\$ 14,581,480</u>	<u>\$ 8,761,762</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2002, consisted of the following, as reported on the fund statements:

Transfers to Nonmajor Governmental funds from:	
General fund	\$ 819,173
Voted Income Tax fund	<u>61,000</u>
Transfers to nonmajor governmental funds	<u>880,173</u>
Transfers to Electric fund from:	
General fund	731,651
Transfers to Refuse fund from:	
General fund	40,000

All transfers were legal and in compliance with Ohio Revised Code. The most significant transfer that occurred during the year was a \$731,651 transfer from the general fund to the Electric enterprise fund. This transfer was related to the kilowatt per hour tax that is collected in the general fund and pertains to electric operations.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Due from/to other funds consisted of the following at December 31, 2002, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Electric fund	\$ 60,764
Voted Income Tax fund	Electric fund	9,145

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

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property tax revenues received in 2002 represent the collection of 2001 taxes. For 2002, real property taxes were levied after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. These taxes will be collected in and are intended to finance 2003 operations. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1999. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes were levied after October 1, 2001, on the assessed values as of December 31, 2000, the lien date. Public utility real property is assessed at 35 percent of true value. Public utility tangible personal property currently is assessed at 88% of true value for taxable transmission and distribution property and 25% of true value for all other taxable property. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2002 (other than public utility property) represent the collection of 2001 taxes. For 2002, tangible personal property taxes were levied after October 1, 2001, on the true value as of December 31, 2001. These taxes will be collected in and are intended to finance 2002 operations. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2002. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2002 operations.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 6 - PROPERTY TAXES - (Continued)

The full tax rate for all City operations for the year ended December 31, 2002, was \$5.32 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2001 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property	
Agricultural/Residential	\$ 73,914,240
Commercial/Industrial	24,511,180
Public Utility Property	
Real	5,000
Personal	1,464,470
Tangible Personal Property	<u>33,178,740</u>
Total Assessed Value	<u>\$133,073,630</u>

NOTE 7 - LOCAL INCOME TAX

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

The City, by ordinance, allocates the first 1 percent of the income tax revenues to the general fund (.72); Street Maintenance and Repair special revenue fund (.18); and Capital Improvement capital projects fund (.10). The remaining .5 percent is allocated to the Voted Tax Capital Improvement capital projects fund. Income tax revenue credited to the general fund totaled \$2,305,124 in fiscal 2002, \$1,059,441 for the Voted Income Tax Fund on the fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2002, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the basic financial statements. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2002, as well as intended to finance fiscal 2002 operations.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 8 - RECEIVABLES - (Continued)

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

Governmental Activities:

Income taxes	\$ 554,883
Real and other taxes	385,750
Loans	1,338,354
Special assessments	246,379
Due from other governments	425,686

Business-type Activities:

Accounts	1,129,612
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Receivables have been disaggregated on the face of the basic financial statements. The only receivables not expected to be collected within the subsequent year are the loans and special assessments.

NOTE 9 - LOANS RECEIVABLE

Loans receivable represent low interest loans for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant program. The loans have an annual interest rate of 3-9.25 percent and are repaid over periods ranging from five to thirty years. A summary of the changes in loans receivable during 2002 follows:

	Balance <u>12/31/01</u>	New <u>Loans</u>	<u>Repayments</u>	Balance <u>12/31/02</u>
<u>Special Revenue Fund</u>				
CDBG				
Individual Loans	\$ 67,785	\$ 744	\$ (11,114)	\$ 57,415
Business Loans	<u>618,443</u>	<u>729,163</u>	<u>(66,667)</u>	<u>1,280,939</u>
Total	<u>\$ 686,228</u>	<u>\$ 729,907</u>	<u>\$ (77,781)</u>	<u>\$ 1,338,354</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 10 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities and business-type activities have been restated due to the increase in capitalization threshold from \$300 to \$5,000, reporting of infrastructure in governmental activities, the inclusion of internal service funds assets in governmental activities and the reporting of errors and omissions in the prior year in governmental activities and business-type activities.

	Balance		Restated
	<u>12/31/01</u>	<u>Adjustments</u>	<u>Balance</u>
			<u>12/31/01</u>
<u>Governmental Activities:</u>			
Land	\$ 1,343,922	\$ 507,639	\$ 1,851,561
Land improvements	406,925	153,707	560,632
Buildings and improvements	1,765,487	(481,632)	1,283,855
Machinery and equipment	1,469,249	(1,055,393)	413,856
Vehicles	1,469,900	435,203	1,905,103
Infrastructure	-	11,217,675	11,217,675
Less: accumulated depreciation	<u>-</u>	<u>(5,633,235)</u>	<u>(5,633,235)</u>
Total	<u>\$ 6,455,483</u>	<u>\$ 5,143,964</u>	<u>\$ 11,599,447</u>
<u>Business-type Activities:</u>			
Land	\$ 359,297	\$ 835,173	\$ 1,194,470
Land improvements	942,715	3,871,977	4,814,692
Buildings and improvements	6,444,040	(1,523,259)	4,920,781
Machinery and equipment	12,835,054	(3,056,991)	9,778,063
Vehicles	1,514,922	396,034	1,910,956
Infrastructure	12,559,277	2,510,791	15,070,068
Construction in progress	2,877,523	(2,877,523)	-
Less: accumulated depreciation	<u>(19,486,265)</u>	<u>2,058,851</u>	<u>(17,427,414)</u>
Total	<u>\$ 18,046,563</u>	<u>\$ 2,215,053</u>	<u>\$ 20,261,616</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 10 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the year ended December 31, 2002, was as follows:

	Restated Balance 12/31/01	Additions	Disposals	Balance 12/31/02
<u>Governmental Activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,851,561	\$ -	\$ -	\$ 1,851,561
Total capital assets, not being depreciated	<u>1,851,561</u>	<u>-</u>	<u>-</u>	<u>1,851,561</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	560,632	232,373	-	793,005
Buildings and improvements	1,283,855	-	-	1,283,855
Machinery and equipment	413,856	103,991	-	517,847
Vehicles	1,905,103	200,438	(118,883)	1,986,658
Infrastructure	<u>11,217,675</u>	<u>1,616,030</u>	<u>-</u>	<u>12,833,705</u>
Total capital assets, being depreciated	<u>15,381,121</u>	<u>2,152,832</u>	<u>(118,883)</u>	<u>17,415,070</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(347,702)	(21,141)	-	(368,843)
Buildings and improvements	(624,980)	(34,841)	-	(659,821)
Machinery and equipment	(209,707)	(46,711)	-	(256,418)
Vehicles	(1,426,593)	(125,168)	108,516	(1,443,245)
Infrastructure	<u>(3,024,253)</u>	<u>(525,067)</u>	<u>-</u>	<u>(3,549,320)</u>
Total accumulated depreciation	<u>(5,633,235)</u>	<u>(752,928)</u>	<u>108,516</u>	<u>(6,277,647)</u>
Total capital assets, being depreciated, net	<u>9,747,886</u>	<u>1,399,904</u>	<u>(10,367)</u>	<u>11,137,423</u>
Governmental activities capital assets, net	<u>\$11,599,447</u>	<u>\$1,399,904</u>	<u>\$ (10,367)</u>	<u>\$12,988,984</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	Restated Balance <u>12/31/01</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/02</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,194,470	\$ -	\$ -	\$ 1,194,470
Total capital assets, not being depreciated	<u>1,194,470</u>	<u>-</u>	<u>-</u>	<u>1,194,470</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	4,814,692	154,559	-	4,969,251
Buildings and improvements	4,920,781	26,983	-	4,947,764
Machinery and equipment	9,778,063	268,610	(222,870)	9,823,803
Vehicles	1,910,956	264,885	(86,487)	2,089,354
Infrastructure	<u>15,070,068</u>	<u>331,387</u>	<u>-</u>	<u>15,401,455</u>
Total capital assets, being depreciated	<u>36,494,560</u>	<u>1,046,424</u>	<u>(309,357)</u>	<u>37,231,627</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,387,999)	(112,816)	-	(1,500,815)
Buildings and improvements	(2,986,714)	(120,135)	-	(3,106,849)
Machinery and equipment	(7,032,270)	(359,041)	222,870	(7,168,441)
Vehicles	(1,307,220)	(132,409)	86,487	(1,353,142)
Infrastructure	<u>(4,713,211)</u>	<u>(351,152)</u>	<u>-</u>	<u>(5,064,363)</u>
Total accumulated depreciation	<u>(17,427,414)</u>	<u>(1,075,553)</u>	<u>309,357</u>	<u>(18,193,610)</u>
Total capital assets, being depreciated, net	<u>19,067,146</u>	<u>(29,129)</u>	<u>-</u>	<u>19,038,017</u>
Business-type activities capital assets, net	<u>\$ 20,261,616</u>	<u>\$ (29,129)</u>	<u>\$ -</u>	<u>\$ 20,232,487</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 10 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 51,619
Security of persons and property	48,901
Transportation	570,518
Community environment	38,213
Leisure time activity	37,223
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>6,454</u>
Total depreciation expense - governmental activities	<u>\$752,928</u>

NOTE 11 - COMPENSATED ABSENCES

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

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

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 12 - LONG-TERM OBLIGATIONS

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

	<u>Series</u>	<u>Interest Rate</u>	<u>Restated Balance 12/31/2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2002</u>	<u>Amounts Due in One Year</u>
Governmental Activities:							
<u>Bond Anticipation Notes</u>							
Street Program	2001	4.25%	\$ 127,000	\$ -	\$(127,000)	\$ -	\$ -
Street Program	2002	2.52%	<u>-</u>	<u>137,000</u>	<u>-</u>	<u>137,000</u>	<u>137,000</u>
Total Bond Anticipation Notes			<u>127,000</u>	<u>137,000</u>	<u>(127,000)</u>	<u>137,000</u>	<u>137,000</u>
General Obligation Note	2002	1.85%	<u>-</u>	<u>1,250,000</u>	<u>-</u>	<u>1,250,000</u>	<u>1,250,000</u>
<u>Special Assessment Bonds</u>							
Sanitary Sewer Improvement	1993	5.00%	2,250	-	(1,120)	1,130	1,130
Street Improvement	1997	4.50%	14,600	-	(14,600)	-	-
Street Improvement	1999	4.50%	27,600	-	(9,200)	18,400	9,200
Street Improvement	2000	5.00%	84,000	-	(21,000)	63,000	21,000
Street Improvement	2001	4.50%	103,000	-	(20,600)	82,400	20,600
Street Improvement	2002	4.50%	<u>-</u>	<u>97,000</u>	<u>-</u>	<u>97,000</u>	<u>19,400</u>
Total Special Assessment Bonds			<u>231,450</u>	<u>97,000</u>	<u>(66,520)</u>	<u>261,930</u>	<u>71,330</u>
<u>Other Long-Term Obligations</u>							
Compensated Absences Payable			172,450	65,096	-	237,546	129,687
Loans Payable		4.21%	<u>32,100</u>	<u>-</u>	<u>(32,100)</u>	<u>-</u>	<u>-</u>
Total Other Long-Term Obligations			<u>204,550</u>	<u>65,096</u>	<u>(32,100)</u>	<u>237,546</u>	<u>129,687</u>
Total governmental activities, long-term obligations			<u>\$ 563,000</u>	<u>\$ 1,549,096</u>	<u>\$ (225,620)</u>	<u>\$ 1,886,476</u>	<u>\$ 1,588,017</u>

The beginning balance was restated due to the Fire Pension Liability of \$15,502 being paid off in prior years.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

	<u>Interest Rate</u>	<u>Restated Balance 12/31/2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2002</u>	<u>Amounts Due in One Year</u>
Business-type Activities:						
<u>Revenue Bonds</u>						
1991 Water Revenue Bonds	4.40-6.65%	\$ 1,000,000	\$ -	\$ (76,667)	\$ 923,333	\$ 73,333
1991 Sewer Revenue Refunding Bonds		<u>1,885,000</u>	<u>-</u>	<u>(222,500)</u>	<u>1,662,500</u>	<u>192,500</u>
Total Revenue Bonds		<u>2,885,000</u>	<u>-</u>	<u>(299,167)</u>	<u>2,585,833</u>	<u>265,833</u>
<u>Mortgage Revenue Bonds</u>						
1990 Electric Mortgage Revenue Refunding bonds	4.75-5.30%	\$ 2,795,000	\$ -	\$ (282,500)	\$ 2,512,500	\$ 241,250
1991 Electric Mortgage Revenue Bonds	4.40-6.65%	<u>945,000</u>	<u>-</u>	<u>(76,250)</u>	<u>868,750</u>	<u>75,000</u>
Total Mortgage Revenue Bonds		<u>3,740,000</u>	<u>-</u>	<u>(358,750)</u>	<u>3,381,250</u>	<u>316,250</u>
<u>General Obligation Bonds</u>						
Electric-OMEGA JV2	3.81%	<u>1,855,813</u>	<u>-</u>	<u>(62,615)</u>	<u>1,793,198</u>	<u>65,280</u>
<u>Other Long-Term Obligations</u>						
Compensated Absences Payable		295,728	40,355	-	336,083	175,896
Landfill Closure/Postclosure Costs		<u>3,740,508</u>	<u>-</u>	<u>(174,578)</u>	<u>3,565,930</u>	<u>-</u>
Total Other Long-Term Obligations		<u>4,036,236</u>	<u>40,355</u>	<u>(174,578)</u>	<u>3,902,013</u>	<u>175,896</u>
Total business-type activities, long-term		<u>\$ 12,517,049</u>	<u>\$ 40,355</u>	<u>\$ (895,110)</u>	<u>\$ 11,662,294</u>	<u>\$ 823,259</u>

Bond Anticipation Notes

The bond anticipation notes are supported by the full faith and credit of the City. The City's long-term bond anticipation notes are payable from unvoted property tax revenues.

General Obligation Note

The general obligation note is supported by the full faith and credit of the City. The City issued a \$1,250,000 general obligation note during 2002. The proceeds will be used finance the construction of a new swimming pool.

Special Assessment Bonds

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Compensated Absences Payable

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

Loans Payable

The loans payable, for the purchase of land, were paid from the general fund.

Revenue Bonds

The revenue bonds are liabilities of the Water and Sewer enterprise funds and pledge their respective revenues for repayment. The bonds also pledge the full faith and credit and taxing authority of the City in the event the enterprise funds revenues are not sufficient to meet the principal and interest requirements. The 1991 Sewer Revenue Refunding Bonds are reported in the Statement of Net Assets net of the unamortized loss on advanced refunding of \$172,982.

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

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

Mortgage Revenue Bonds

The mortgage revenue bonds are special obligations of the City secured by a mortgage upon all assets of the electric system. These bonds are payable solely from the gross revenues of the electric system after provision for reasonable operating and maintenance expenses. The bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for services to customers be in sufficient amounts to satisfy the obligations under the indenture agreements. The Electric Mortgage Revenue Bonds are reported on the Statement of Net Assets net of the unamortized loss on advanced refunding of \$267,726.

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

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

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Defeased Debt

In 1991, the City advance refunded revenue and mortgage revenue bonds, in the amount of \$2,645,000 and \$3,540,000, respectively. The proceeds of the bonds and other assets were placed in an irrevocable trust for the payment of the bonds when due. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the City's financial statements. At December 31, 2002, revenue and mortgage revenue bonds, in the amount of \$1,765,000, and \$2,570,000, were outstanding.

Reconciliation of Business-type Obligations

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

Business-type activities

Total long-term obligations as stated above	\$ 11,662,294
Less: Unamortized loss on advance refunding - sewer	(172,982)
Less: Unamortized loss on advance refunding - electric	<u>(267,726)</u>
 Total long-term liabilities reported on the Statement of Net Assets	 <u>\$ 11,221,586</u>

Legal Debt Margin

The City's voted and unvoted legal debt margins were \$13,744,793 and \$7,091,112, respectively, at December 31, 2002.

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

Year	Special Assessment Bonds		
	Principal	Interest	Total
2003	\$ 71,330	\$ 12,108	\$ 83,438
2004	70,200	8,788	78,988
2005	61,000	5,523	66,523
2006	40,000	2,674	42,674
2007	<u>19,400</u>	<u>873</u>	<u>20,273</u>
Total	<u>\$ 261,930</u>	<u>\$ 29,966</u>	<u>\$ 291,896</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

<u>Year</u>	<u>Revenue Bonds</u>	<u>Mortgage Revenue Bonds</u>	<u>Total</u>
2003	\$ 435,360	\$ 531,360	\$ 966,720
2004	430,345	528,810	959,155
2005	429,775	530,390	960,165
2006	443,083	525,578	968,661
2007	443,815	529,648	973,463
2008 - 2011	<u>1,116,268</u>	<u>1,700,893</u>	<u>2,817,161</u>
Total	<u>\$3,298,646</u>	<u>\$4,346,679</u>	<u>\$7,645,325</u>

NOTE 13 - SHORT-TERM OBLIGATIONS

Short-term obligations activity for the year ended December 31, 2002, was as follows:

	<u>Interest Rate</u>	<u>Balance 12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/02</u>
<u>Enterprise Funds</u>					
Land Improvement Bond					
Anticipation Note	2.40%	\$ 2,700,000	\$ -	\$ (2,700,000)	\$ -
Land Improvement Bond					
Anticipation Note	1.70%	-	2,600,000	-	2,600,000
Sanitary Improvement Bond					
Anticipation Note	3.20%	1,300,000	-	(1,300,000)	-
Sanitary Improvement Bond					
Anticipation Note	2.25%	<u>-</u>	<u>1,182,000</u>	<u>-</u>	<u>1,182,000</u>
Total notes payable		<u>\$ 4,000,000</u>	<u>\$ 3,782,000</u>	<u>\$ (4,000,000)</u>	<u>\$ 3,782,000</u>

According to Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. The City's notes are bond anticipation notes and are supported by the full faith and credit of the City. The liability for all notes is presented in the fund which received the proceeds and have a maturity of one year.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 14 - RISK MANAGEMENT

A. Property and Liability

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

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

There have been no significant reductions in insurance coverage from 2001, and no insurance settlement has exceeded insurance coverage during the last three years.

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

B. Employee Medical Benefits

The City has elected to provide employee health insurance benefits through a partially self-insured program. The City established a Self-Insurance internal service fund to account for and finance the cost of the program. All funds of the City participate in the self-insurance program and make payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior- and current-year claims. For 2002, the City utilized a third party administrator, Anthem Benefit Administrators, to process all claims. The monthly premiums are \$209.77 for single coverage and \$525.45 for family coverage; the employee's share is \$38.96 and \$125.45, respectively. All premiums paid to the Self-Insurance internal service fund were deposited with the claims servicing pool. The cost to the City for the third party administrator is \$17.86 per employee per month.

Under the City's self-insured program, the Self-Insurance internal service fund pays claims up to a maximum of \$25,000 per individual per year and claims in excess of \$1,000,000 per individual for their lifetime. The City purchases stop-loss coverage for claims in excess of coverage provided by the fund. Settled claims have not exceeded the stop-loss coverage for the last three years.

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2002, is estimated by the third party administrator at \$139,583. The changes in the claims liability for 2002 and 2001 were as follows:

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 14 - RISK MANAGEMENT - (Continued)

<u>Year</u>	<u>Beginning Balance</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2002	\$ 150,629	\$ 699,215	\$ 710,261	\$ 139,583
2001	34,527	846,907	730,805	150,629

C. Workers' Compensation

For 2002, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

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

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2002. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2002. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$458,665, \$449,141, and \$208,671, respectively; 98.05% has been contributed for 2002 and 100% for 2001 and 2000. \$8,944, representing the unpaid contribution for 2002, is recorded as a liability within the respective funds.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2002, 2001, and 2000 were \$254,394, \$254,329, and \$163,038, respectively; 74.39% has been contributed for 2002 and 100% for the years 2001 and 2000. \$65,148, representing the unpaid contributions for 2002, is recorded as a liability within the respective funds.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2002 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$65,148.

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

As of December 31, 2001 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively, at December 31, 2001 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2001 (the latest information available) was 402,041.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

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

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2002, Comprehensive Annual Financial Report.

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50% and 7.75% of covered payroll in 2001 and 2002, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2001 (the latest information available), is 13,174 for police officers and 10,239 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$48,205 and \$42,950, respectively. OP&F's total health care expense for the year ending December 31, 2001 (the latest information available), was \$122.299 million, which was net of member contributions of \$6.875 million.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
5. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

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

Net Change in Fund Balance

	<u>General</u>
Budget Basis	\$ (106,304)
Net adjustment for revenue accruals	(105,426)
Net adjustment for expenditure accruals	167,514
Adjustment for encumbrances	<u>163,394</u>
GAAP basis	<u>\$ 119,178</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 18 - RESERVED RETAINED EARNINGS AND RESTRICTED ASSET ACCOUNTS

Fund assets, whose use are restricted under the bond indentures to replacement and improvements, operations, and debt service requirements, are presented as restricted assets on the combined balance sheet. These assets are further segregated between those held by the City and those held by the trustees. Restricted assets relating to each of the bond issues were as follows at December 31, 2002.

	<u>Restricted Assets</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Electric</u>	
	<u>Revenue</u>	<u>Revenue</u>	<u>Mortgage</u>	<u>Mortgage</u>	<u>Totals</u>
		<u>Refunding</u>	<u>Revenue</u>	<u>Revenue</u>	
			<u>Refunding</u>	<u>Revenue</u>	
Restricted assets held by the City for:					
Replacements and improvements	\$ 666,718	\$ 348,253	\$ 1,042,842	\$ -	\$ 2,057,813
Operations construction	409,757	256,125	3,025,863	-	3,691,745
Restricted assets held by Trustee for:					
Bond current debt service	12,384	26,920	38,838	12,197	90,339
Bond future debt service	145,553	299,913	398,635	133,314	977,415

NOTE 19 - LANDFILL CLOSURE/POSTCLOSURE COSTS

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

The City is in the process of closing the landfill. The landfill closure and postclosure liability of \$3,565,930 at December 31, 2002, 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 2002. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 20 - CONTRACTUAL COMMITMENTS

As of December 31, 2002, the City had the following contractual commitments outstanding related to the construction of a Bikeway and Water Plant Expansion. A summary of the primary contractual commitments follows:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Contract Balance</u>
Hull & Associates	\$ 129,345	\$ 54,830	\$ 74,515
Finkbeiner, Pettis, & Strout	22,000	6,927	15,073
SFT, Inc.	48,500	4,454	44,046
Shinn Bros. Inc.	1,274,000	112,622	1,161,378
Penn Ohio Coal Co.	846,000	758,228	87,772
Heyne Construction Inc.	168,900	-	168,900
Dresser Rand Company	196,683	181,428	15,255
Kohli & Kaliher Associates	35,000	17,855	17,145
Branstetter Carroll Inc.	70,638	55,810	14,828
Musco Sports Lighting LLC	41,900	-	41,900
OMNI MFG	<u>920,000</u>	<u>725,793</u>	<u>194,207</u>
Total Contractual Commitments	<u>\$ 3,752,966</u>	<u>\$ 1,917,947</u>	<u>\$ 1,835,019</u>

NOTE 21 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2002.

B. Litigation

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

NOTE 22 – SUBSEQUENT EVENT

In April 2003, the City retired its Bond Anticipation Note in the amount of \$137,000. The City issued a new Bond Anticipation Note due in April 2004.

SUPPLEMENTAL DATA

**CITY OF ST. MARYS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	CASH (A) FEDERAL DISBURSEMENTS
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT			
(B) Small Cities Community Development Block	14.228	A-E-01-179-1	\$ 422,000
(C) Small Cities Community Development Block	14.228	N/A	303,959
Total U.S. Department of Housing and Urban Development			<u>725,959</u>
Total Federal Financial Assistance			<u>\$ 725,959</u>

- (A) This schedule has been prepared on the cash basis of accounting.
- (B) The City has established a revolving loan program to provide low-interest loans to businesses that are creating jobs and meet the other program requirements. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Expenditures of Federal Awards. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on this schedule. These loans are collateralized by mortgages on the property. At December 31, 2002, the gross amount of loans outstanding under this program were \$1,280,939.
- (C) The City converted old Revolving Loan Funds to Community Development Block Grant funds with approval from Ohio Department of Development.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

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

We have audited the basic financial statements of the City of St. Marys as of and for the year ended December 31, 2002, and have issued our report thereon dated August 25, 2003. During the year ended December 31, 2002, the City of St. Marys implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussions and Analysis - for State and Local Governments. GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus and GASB Statement No. 38, Certain Financial Statement Note Disclosures. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Mayor and Members of Council
City of St. Marys

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of St. Marys internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the City of St. Marys in a separate letter dated August 25, 2003.

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

Trimble, Julian & Grube, Inc.
August 25, 2003

TRIMBLE, JULIAN & GRUBE, INC.

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Report on Compliance With Requirements Applicable To Its Major Federal Program and on Internal Control Over Compliance In Accordance With *OMB Circular A-133*

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

Compliance

We have audited the compliance of the City of St. Marys with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. During the year ended December 31, 2002, the City of St. Marys implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, GASB Statement No. 36, Recipient Reporting for Certain Shared Nonexchange Revenues, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus and GASB Statement No. 38, Certain Financial Statement Note Disclosures. The City of St. Marys major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of St. Marys management. Our responsibility is to express an opinion on the City of St. Marys compliance based on our audit.

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

Members of Council and Mayor
City of St. Marys

In our opinion, the City of St. Marys complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002.

Internal Control Over Compliance

The management of the City of St. Marys is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of St. Marys internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to its major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Trimble, Julian & Grube, Inc.
August 25, 2003

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
DECEMBER 31, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program:</i>	Community Development Block Grant; CFDA #14.228.
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
DECEMBER 31, 2002**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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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 6, 2003**