

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

*Basic
Financial Statements*
(Audited)

For The Year Ended
December 31, 2006

DOUGLAS M. RIESEN, CITY AUDITOR



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of St. Marys, Auglaize County, prepared by Julian & Grube, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 5, 2007

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

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

TABLE OF CONTENTS

	<u>PAGE</u>
Table of Contents.....	1
Independent Auditor’s Report	2
Management’s Discussion and Analysis	3 - 18
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	19 - 20
Statement of Activities.....	21 - 22
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	23 - 24
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	25
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	26 - 27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	28
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	29
Statement of Net Assets - Proprietary Funds	30 - 31
Statement of Revenues, Expenses and Changes in Net Assets (Deficit) - Proprietary Funds.....	32 - 33
Statement of Cash Flows - Proprietary Funds.....	34 - 37
Statement of Fiduciary Net Assets - Fiduciary Fund	38
Notes to the Basic Financial Statements.....	39 - 71
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	72 - 73

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Julian & Grube, Inc.
Serving Ohio Local Governments

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of St. Marys, Auglaize County, Ohio, (the "City") as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys, Auglaize County, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3B to the basic financial statements, fund balance has been restated for the special assessment bond retirement fund due to a reclassification of internal borrowings. In addition, the electric fund cash and net assets has been restated due to errors in the prior year.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 11, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Page Two
Independent Auditor's Letter

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Julian & Grube, Inc.

Julian & Grube, Inc.
May 11, 2007

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

The Management's Discussion and Analysis of the City of St. Marys (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. 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 2006 are as follows:

- The total net assets of the City increased \$2,866,688. Net assets of governmental activities increased \$1,896,086 or 6.54% over 2005 and net assets of business-type activities increased \$970,602 or 4.54% from 2005.
- General revenues accounted for \$6,878,309 of total governmental activities revenue. Program specific revenues accounted for \$1,142,350 or 14.24% of total governmental activities revenue.
- The City had \$5,296,171 in expenses related to governmental activities; \$1,142,350 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$4,153,821 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$6,878,309.
- The general fund had revenues of \$5,553,048 in 2006. This represents an increase of \$170,170 from 2005 revenues. The expenditures and other financing uses of the general fund, which totaled \$5,348,455 in 2006, increased \$175,619 from 2005. The net increase in fund balance for the general fund was \$203,385 or 4.62%.
- The special assessment bond retirement fund had revenues and other financing sources of \$138,786 in 2006. The expenditures and other financing uses of the special assessment bond retirement fund totaled \$150,260 in 2006. The net decrease in fund balance for the special assessment bond retirement fund was \$11,474 or 3.92%.
- The voted income tax fund had revenues of \$1,458,339 in 2006. This represents a decrease of \$5,462 from 2005 revenues. The expenditures of the voted income tax fund, which totaled \$977,307 in 2006, decreased \$280,136 from 2005. The net increase in fund balance for the voted income tax fund was \$481,032 or 15.94%.
- The capital improvements fund had \$266,500 in transfers in for 2006. The expenditures of the capital improvements fund totaled \$141,355 in 2006. The net increase in fund balance for the capital improvements fund was \$125,145 or 5.16%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, Electric and Refuse enterprise funds, increased in 2006 by \$970,602. This increase in net assets was due primarily to operating income and transfers.
- In the general fund, the actual revenues came in \$260,012 higher than they were in the final budget and actual expenditures were \$741,341 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues did not change from the original to the final budget. Budgeted expenditures increased \$122,750 from the original to the final budget as a result of an anticipated increase in wages and benefits.

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

Using this Annual Financial Report

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

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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

Governmental Funds

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, the Special Assessment Bond Retirement Fund, the Voted Income Tax fund and the capital improvements fund. The Voted Income Tax fund represents a 0.5% income tax levy earmarked for safety capital improvements. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 23 - 29 of this report.

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 39 - 71 of this report.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

Government-Wide Financial Analysis

This is the City's government-wide financial statements using the full accrual basis of accounting. The table below provides a summary of the City's net assets for 2006 and 2005:

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>						
Current and other assets	\$ 16,345,400	\$ 15,354,600	\$ 13,937,853	\$ 13,055,421	\$ 30,283,253	\$ 28,410,021
Capital assets	<u>16,227,184</u>	<u>15,788,224</u>	<u>18,566,264</u>	<u>18,818,541</u>	<u>34,793,448</u>	<u>34,606,765</u>
Total assets	<u>32,572,584</u>	<u>31,142,824</u>	<u>32,504,117</u>	<u>31,873,962</u>	<u>65,076,701</u>	<u>63,016,786</u>
<u>Liabilities</u>						
Long-term liabilities	327,312	623,612	6,183,296	6,440,724	6,510,608	7,064,336
Other liabilities	<u>1,339,552</u>	<u>1,509,578</u>	<u>3,980,005</u>	<u>4,063,024</u>	<u>5,319,557</u>	<u>5,572,602</u>
Total liabilities	<u>1,666,864</u>	<u>2,133,190</u>	<u>10,163,301</u>	<u>10,503,748</u>	<u>11,830,165</u>	<u>12,636,938</u>
<u>Net Assets</u>						
Invested capital assets, net of related debt	15,792,184	14,884,234	13,615,117	13,177,391	29,407,301	28,061,625
Restricted	9,657,272	8,759,999	868,793	796,896	10,526,065	9,556,895
Unrestricted	<u>5,456,264</u>	<u>5,365,401</u>	<u>7,856,906</u>	<u>7,395,927</u>	<u>13,313,170</u>	<u>12,761,328</u>
Total net assets	<u>\$ 30,905,720</u>	<u>\$ 29,009,634</u>	<u>\$ 22,340,816</u>	<u>\$ 21,370,214</u>	<u>\$ 53,246,536</u>	<u>\$ 50,379,848</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$53,246,536. At year-end, net assets were \$30,905,720 and \$22,340,816 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 53.47% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$15,792,184 and \$13,615,117 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, 2006, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$10,526,065, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$5,456,264 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

The table below shows the changes in net assets for fiscal year 2006 and 2005.

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 627,751	\$ 697,609	\$ 15,850,165	\$ 15,416,742	\$ 16,477,916	\$ 16,114,351
Operating grants and contributions	407,498	370,277	-	-	407,498	370,277
Capital grants and contributions	<u>107,101</u>	<u>333,606</u>	<u>166,097</u>	<u>270,659</u>	<u>273,198</u>	<u>604,265</u>
Total program revenues	<u>1,142,350</u>	<u>1,401,492</u>	<u>16,016,262</u>	<u>15,687,401</u>	<u>17,158,612</u>	<u>17,088,893</u>
General revenues:						
Property taxes	1,273,751	1,211,035	-	-	1,273,751	1,211,035
Income taxes	4,122,273	4,157,348	-	-	4,122,273	4,157,348
Other local taxes	-	-	-	-	-	-
Unrestricted grants	615,854	597,875	-	-	615,854	597,875
Interest	748,991	510,968	288,499	233,635	1,037,490	744,603
Miscellaneous	<u>117,440</u>	<u>118,066</u>	<u>7,335</u>	<u>313,165</u>	<u>124,775</u>	<u>431,231</u>
Total general revenues	<u>6,878,309</u>	<u>6,595,292</u>	<u>295,834</u>	<u>546,800</u>	<u>7,174,143</u>	<u>7,142,092</u>
Total revenues	<u>8,020,659</u>	<u>7,996,784</u>	<u>16,312,096</u>	<u>16,234,201</u>	<u>24,332,755</u>	<u>24,230,985</u>
Expenses:						
General government	1,123,504	1,104,485	-	-	1,123,504	1,104,485
Security of persons and property	2,300,612	2,686,299	-	-	2,300,612	2,686,299
Public health and welfare	7,537	13,157	-	-	7,537	13,157
Transportation	1,423,515	1,577,100	-	-	1,423,515	1,577,100
Community environment	82,167	230,584	-	-	82,167	230,584
Leisure time activity	324,005	377,234	-	-	324,005	377,234
Interest and fiscal charges	34,831	44,439	-	-	34,831	44,439
Water	-	-	1,346,116	1,222,450	1,346,116	1,222,450
Sewer	-	-	1,114,001	1,276,377	1,114,001	1,276,377
Electric	-	-	12,720,375	12,296,123	12,720,375	12,296,123
Refuse	<u>-</u>	<u>-</u>	<u>989,404</u>	<u>1,109,455</u>	<u>989,404</u>	<u>1,109,455</u>
Total expenses	<u>5,296,171</u>	<u>6,033,298</u>	<u>16,169,896</u>	<u>15,904,405</u>	<u>21,466,067</u>	<u>21,937,703</u>
Increase (decrease) in net assets before transfers	2,724,488	1,963,486	142,200	329,796	2,866,688	2,293,282
Transfers	<u>(828,402)</u>	<u>(913,372)</u>	<u>828,402</u>	<u>913,372</u>	<u>-</u>	<u>-</u>
Change in net assets	1,896,086	1,050,114	970,602	1,243,168	2,866,688	2,293,282
Net assets at beginning of year	<u>29,009,634</u>	<u>27,959,520</u>	<u>21,370,214</u>	<u>20,127,046</u>	<u>50,379,848</u>	<u>48,086,566</u>
Net assets at end of year	<u>\$ 30,905,720</u>	<u>\$ 29,009,634</u>	<u>\$ 22,340,816</u>	<u>\$ 21,370,214</u>	<u>\$ 53,246,536</u>	<u>\$ 50,379,848</u>

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

Governmental Activities

Governmental activities net assets increased \$1,896,086 in 2006. This increase is the result of an increase in revenues and a decrease in expenses due to the City's conservative budgeting.

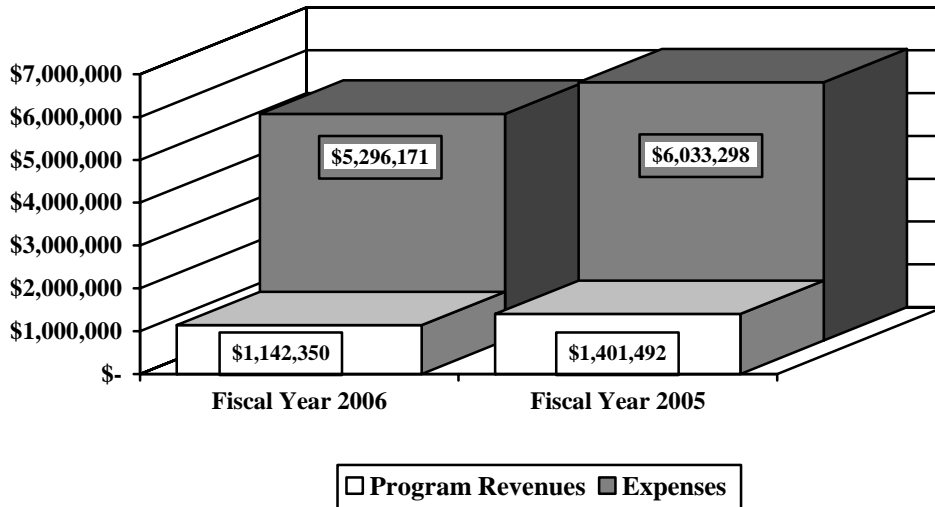
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$2,300,612 of the total expenses of the City. These expenses were partially funded by \$249,306 in direct charges to users of the services. Transportation expenses totaled \$1,423,515. Transportation expenses were partially funded by \$6,773 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$407,498 in operating grants and contributions and \$107,101 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$403,398, subsidized transportation programs, and \$4,100 subsidized security of persons and property. Of the total capital grants and contributions, \$104,045, subsidized transportation programs and \$3,056 subsidized security of persons and property.

General revenues totaled \$6,878,309, and amounted to 85.76% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$5,396,024. 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 \$615,854.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF ST. MARYS, OHIO

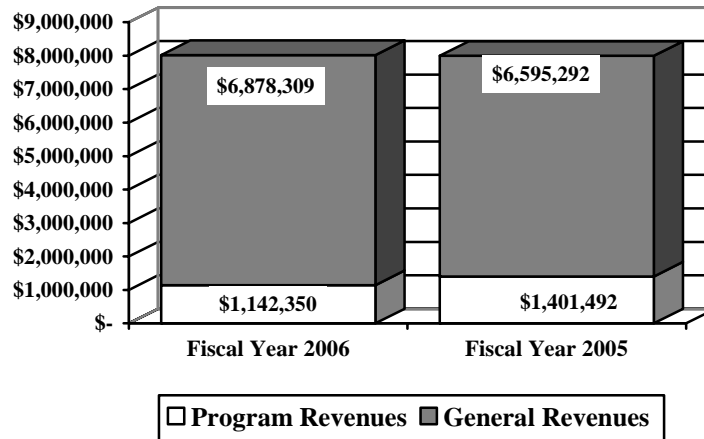
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses:				
General government	\$ 1,123,504	\$ 992,217	\$ 1,104,485	\$ 906,413
Security of persons and property	2,300,612	2,044,150	2,686,299	2,221,111
Public health and welfare	7,537	6,649	13,157	10,658
Transportation	1,423,515	909,299	1,577,100	1,144,033
Community environment	82,167	80,151	230,584	224,405
Leisure time activity	324,005	203,069	377,234	231,952
Interest and fiscal charges	<u>34,831</u>	<u>(81,714)</u>	<u>44,439</u>	<u>(106,766)</u>
 Total expenses	 <u>\$ 5,296,171</u>	 <u>\$ 4,153,821</u>	 <u>\$ 6,033,298</u>	 <u>\$ 4,631,806</u>

The dependence upon general revenues for governmental activities is apparent, with 78.43% of expenses supported through taxes and other general revenues.

Governmental Activities - General and Program Revenues



Business-Type Activities

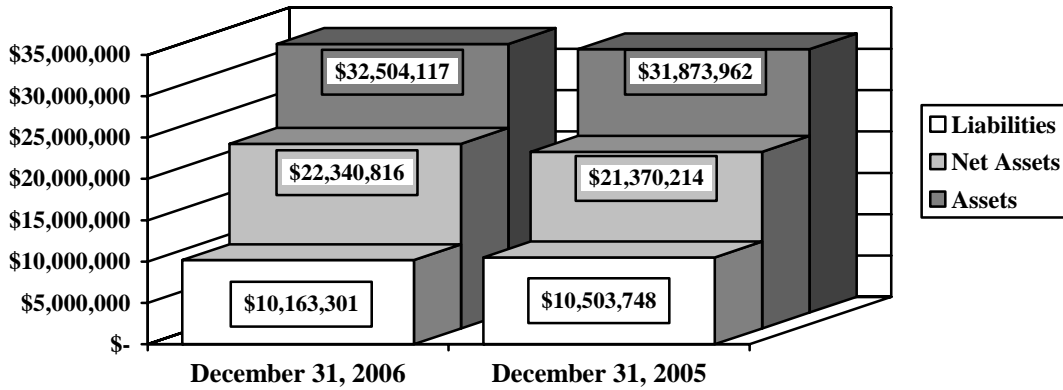
Business-type activities include the water, sewer, electric and refuse enterprise funds. These programs had program revenues of \$16,016,262, general revenues of \$295,834 and expenses of \$16,169,896 for 2006.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

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

Net Assets in Business - Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on pages 23 - 24) reported a combined fund balance of \$13,681,217 which is \$1,405,154 higher than last year's restated total of \$12,276,063. The fund balances of the City's governmental funds were restated as described in Note 3.B to the financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	Fund Balances (Deficit) <u>12/31/06</u>	Restated Fund Balances (Deficit) <u>12/31/05</u>	Increase (Decrease)
Major Funds:			
General	\$ 4,607,859	\$ 4,404,474	\$ 203,385
Special assessment bond retirement	(304,488)	(293,014)	(11,474)
Voted income tax	3,498,668	3,017,636	481,032
Recreational Facility Construction	2,549,346	2,424,201	125,145
Other Nonmajor Governmental Funds	<u>3,329,832</u>	<u>2,722,766</u>	<u>607,066</u>
Total	<u>\$ 13,681,217</u>	<u>\$ 12,276,063</u>	<u>\$ 1,405,154</u>

CITY OF ST. MARYS, OHIO

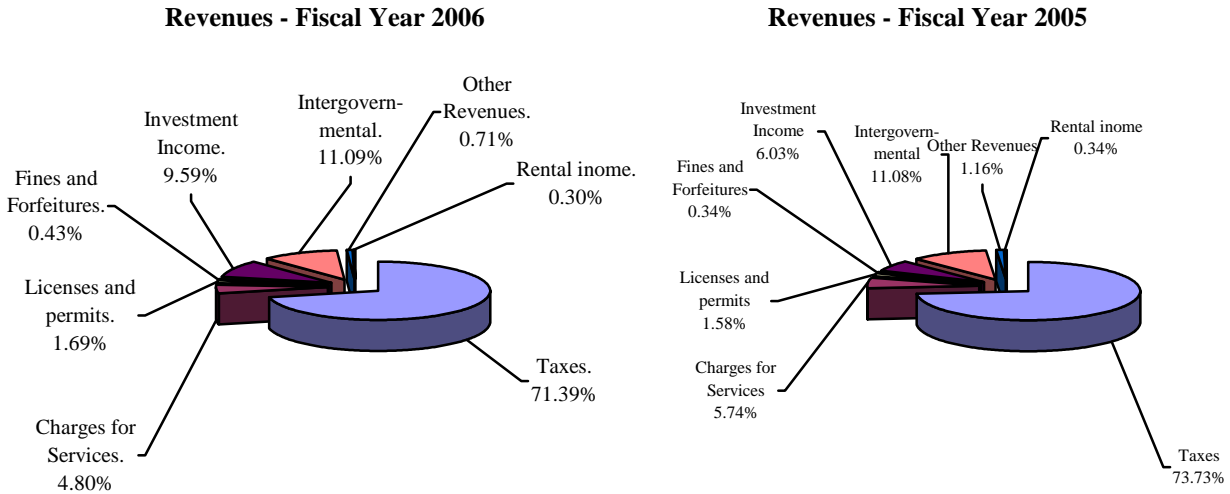
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

General Fund

The City's general fund balance increased \$203,385 primarily due to the net effect of an increase in revenues, an increase in expenses, and a decrease in transfers out. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
Revenues			
Taxes	\$ 3,963,885	\$ 3,969,841	(0.15) %
Charges for services	266,422	308,956	(13.77) %
Licenses and permits	93,762	84,850	10.50 %
Fines and forfeitures	24,117	18,402	31.06 %
Investment income	532,779	324,831	64.02 %
Rental income	16,917	16,917	-
Intergovernmental	615,841	596,475	3.25 %
Other	<u>39,325</u>	<u>62,606</u>	(37.19) %
Total	<u>\$ 5,553,048</u>	<u>\$ 5,382,878</u>	3.16 %

Tax revenues decreased \$5,956 or 0.15% from the prior year. This decrease is attributed to a decrease in income tax revenues. The increase in investment income is due to higher interest rates available to the City on monies held in depository and investment accounts. All other revenues remained comparable to 2005.



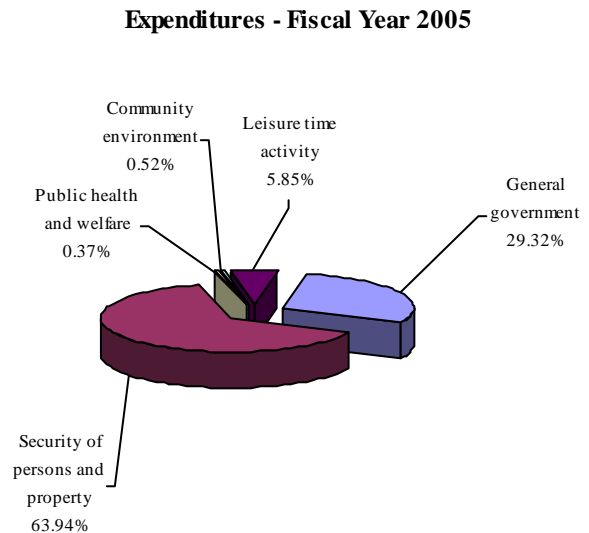
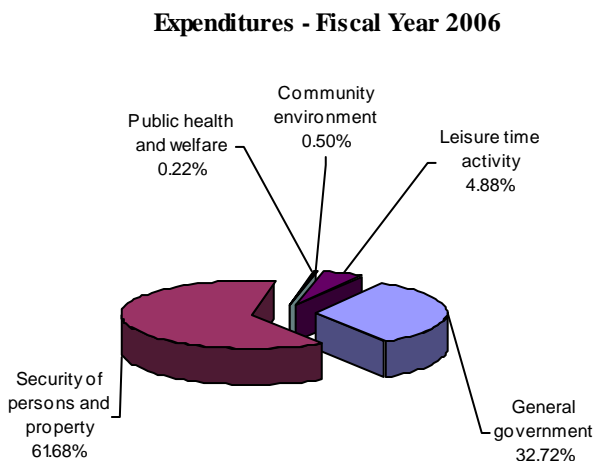
CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percent</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,076,259	\$ 886,678	21.38 %
Security of person and property	2,028,555	1,934,131	4.88 %
Public health and welfare	7,290	11,224	(35.05) %
Community environment	16,524	15,632	5.71 %
Leisure time activity	160,488	176,905	(9.28) %
Total	<u>\$ 3,289,116</u>	<u>\$ 3,024,570</u>	8.75 %

General government expenditures increased by \$189,581 or 21.38%. This increase is attributed to an increase in accrued wages and benefits. All other expenditures remained comparable to 2005.



Special Assessment Bond Retirement Fund

The special assessment bond retirement fund had revenues and other financing sources of \$138,786 in 2006. The expenditures and other financing uses of the special assessment bond retirement fund totaled \$150,260 in 2006. The net decrease in fund balance for the special assessment bond retirement fund was \$11,474 or 3.92%.

Voted Income Tax Fund

The voted income tax fund had revenues of \$1,458,339 in 2006. This represents a decrease of \$5,462 from 2005 revenues. The expenditures of the voted income tax fund, which totaled \$977,307 in 2006, decreased \$280,136 from 2005. The net increase in fund balance for the voted income tax fund was \$481,032 or 15.94%.

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

Capital Improvements Fund

The capital improvements fund had no revenue in 2006. The expenditures of the capital improvements fund totaled \$141,355 in 2006. The net increase in fund balance for the capital improvements fund was \$125,145 or 5.16%.

Budgeting Highlights - General Fund

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

Budgetary information is presented for the general fund. In the general fund one of the most significant changes was between the original and final budgeted amount in the area of expenditures and other financing uses, which increased \$191,507 from \$9,440,709 to \$9,632,216. Actual revenues and other financing sources of \$8,798,164 increased from the final budgeted revenues by \$895,412. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures and other financing uses came in \$882,435 lower than the final budgeted amounts.

Proprietary Funds

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

Water Fund

The water fund had operating revenues of \$1,226,015 in 2006. This represents an increase of \$20,801 from 2005 operating revenues. The operating expenses of the water fund, which totaled \$1,340,651 in 2006, increased \$168,739 from 2005. The decrease in net assets for the water fund was \$25,881 or 0.41%.

Sewer Fund

The sewer fund had operating revenues of \$1,518,101 in 2006. This represents an increase of \$209,333 from 2005 operating revenues. The operating expenses of the sewer fund, which totaled \$1,027,905 in 2006, decreased \$146,716 from 2005. The increase in net assets for the sewer fund was \$539,016 or 10.07%.

Electric Fund

The electric fund had operating revenues of \$12,234,678 in 2006. This represents a decrease of \$104,026 from 2005 operating revenues. The operating expenses of the electric fund, which totaled \$12,482,478 in 2006, increased \$286,143 from 2005. The increase in net assets for the electric fund was \$534,803 or 4.58%.

Refuse Fund

The refuse fund had operating revenues of \$871,371 in 2006. This represents an increase of \$5,937 from 2005 operating revenues. The operating expenses of the refuse fund, which totaled \$945,400 in 2006, decreased \$158,609 from 2005. The decrease in net assets for the refuse fund was \$39,511 or 2.06%.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

Capital Assets and Debt Administration

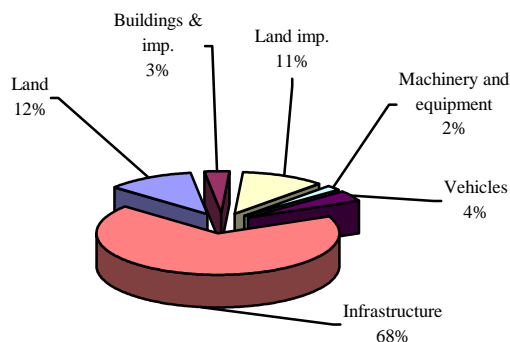
Capital Assets

At the end of fiscal 2006, the City had \$34,793,448 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. Of this total, \$16,227,184 was reported in governmental activities and \$18,566,264 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

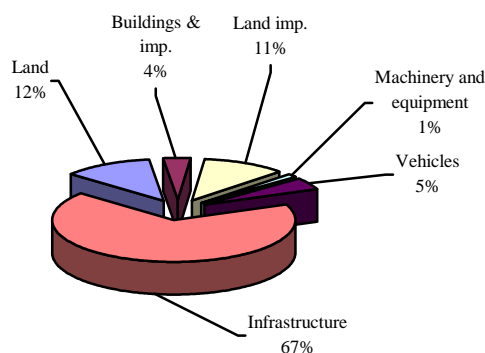
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 1,881,561	\$ 1,881,561	\$ 1,194,470	\$ 1,194,470	\$ 3,076,031	\$ 3,076,031
Land improvements	1,825,165	1,758,738	2,698,109	2,874,680	4,523,274	4,633,418
Buildings and improvements	544,178	561,530	1,574,821	1,656,118	2,118,999	2,217,648
Machinery and equipment	293,222	233,120	2,363,964	2,283,085	2,657,186	2,516,205
Vehicles	670,186	728,642	578,669	491,016	1,248,855	1,219,658
Infrastructure	<u>11,012,872</u>	<u>10,624,633</u>	<u>10,156,231</u>	<u>10,319,172</u>	<u>21,169,103</u>	<u>20,943,805</u>
Total	<u>\$ 16,227,184</u>	<u>\$ 15,788,224</u>	<u>\$ 18,566,264</u>	<u>\$ 18,818,541</u>	<u>\$ 34,793,448</u>	<u>\$ 34,606,765</u>

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

**Capital Assets - Governmental Activities
2006**



**Capital Assets - Governmental Activities
2005**

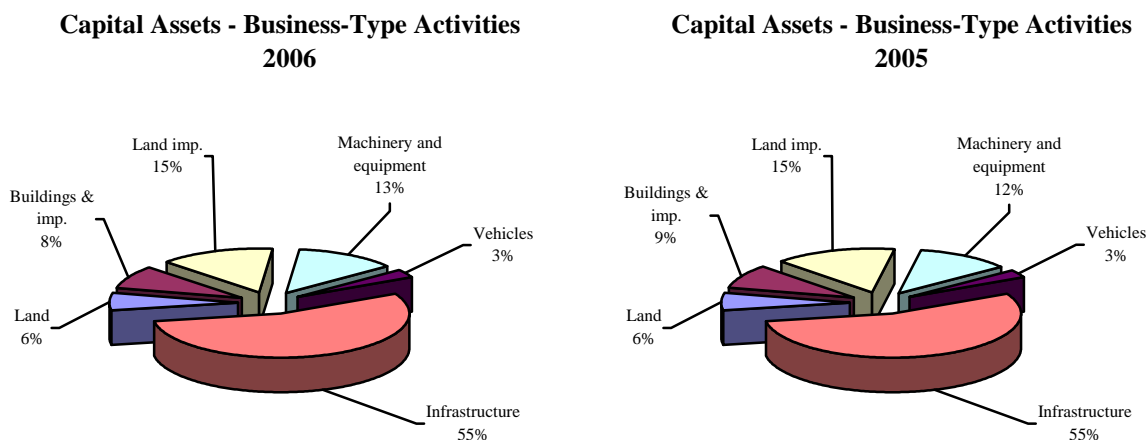


The City's largest governmental capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, right-of-way, street lighting, and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 68% of the City's total governmental capital assets.

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.



The City's largest business-type capital asset category is infrastructure. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 55% of the City's total business-type capital assets. Additional information on the City's capital assets can be found in Note 10.

Debt Administration

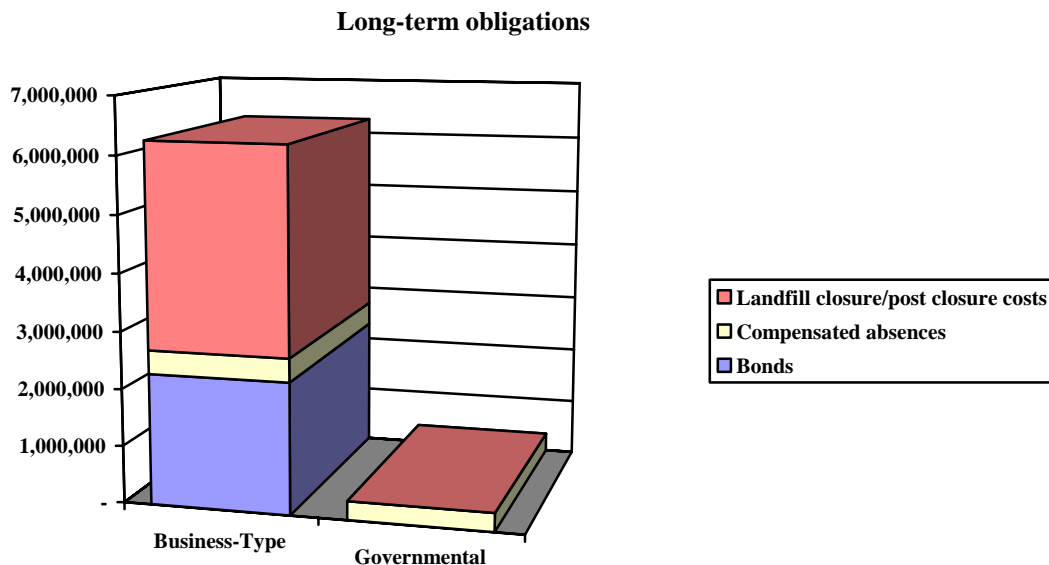
The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Compensated absences	\$ 327,312	\$ 300,122
Total long-term obligations	<u>\$ 327,312</u>	<u>\$ 300,122</u>
	<u>Business-Type Activities</u>	
Revenue bonds	\$ 775,000	\$ 1,020,000
General obligation bonds	<u>1,515,330</u>	<u>1,589,175</u>
Total bonds	<u>2,290,330</u>	<u>2,609,175</u>
Compensated absences	413,384	423,124
Landfill closure/post closure costs	<u>3,559,380</u>	<u>3,513,450</u>
Total long-term obligation	<u>\$ 6,263,094</u>	<u>\$ 6,545,749</u>

CITY OF ST. MARYS, OHIO

MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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



Economic Conditions and Outlook

One of the largest manufacturing plants in St. Marys remains the Goodyear Tire & Rubber Company, with an employment of 430 employees at the local plant. Goodyear has kept the local Engineered Products Plant competitive and responsible to the global marketplace changes. The primary products produced at the local Goodyear plant today are agricultural rubber tracks called the “trackman” and military rubber tank treads produced for use on the Army’s primary battle tank the Abrams M1 tank, which is produced in Lima. The local Goodyear Engineered Plant may be sold to the Carlyle Group, pending necessary approvals. It is hoped the Carlyle Group will have the capital funds to add new equipment and new employment opportunities for the future of the local plant.

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

Setex was the first Japanese company to call St. Marys home when it started the production of automobile seats for Honda in the late 1980’s. Over the past 15 years, Setex has experienced tremendous growth, with employment levels increasing from the initial 65 employees to the current 525 employees. Setex also increased production capacity significantly by first doubling the size of their initial plant and later constructing a new manufacturing plant to permit production of seats for a variety of Honda automobile lines.

AAP St. Marys Corporation, a division of Hitachi Metals America Ltd., established their aluminum wheel casting plant in St. Marys in 1988. AAP St. Marys has also experienced tremendous growth, with employment levels increasing from the initial 65 employees to the 450 employees today. AAP is currently undergoing a major building expansion and investment in new machinery and equipment. The expansion project is estimated at \$23 million with 50 new employees expected to be hired. These 450 to 500 employees provide a key component of the stable industrial base in St. Marys.

CITY OF ST. MARYS, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

St. Marys also has other manufacturing industries that add stability to the local economy. Parker Hannifin Corporation, employing 175 workers, manufactures hydraulic cylinder components and recently constructed a new plant in the City. Omni Manufacturing, Inc., a metal tooling and stamping plant, has enjoyed steady growth with an employment level near 130. In addition, the St. Marys Foundry, Inc., Pro-Pet, LLC, Classic Delight, Inc., MTO, and others combine to offer diverse manufacturing jobs for families in the St. Marys area.

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

The diversity of the manufacturing sector bodes well for the economy of 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 Columbus, Dayton, Toledo, and Ft. Wayne are within easy commuting distance. Almost two-thirds of the nation's population lives within a 500 mile radius, making St. Marys a natural location to conduct business.

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

The rich history of St. Marys dates back to the early 1800's 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 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 a historic canal boat, a wooden covered bridge, a grotto along the St. Marys River, and a Veteran's Memorial Walkway. St. Marys' people are "can do" people, taking strides to improve their community.

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

CITY OF ST. MARYS, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

Contacting the City's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

CITY OF ST. MARYS, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 12,928,104	\$ 9,332,890	\$ 22,260,994
Cash in segregated accounts	24,490	-	24,490
Receivables (net of allowances for uncollectibles):			
Income taxes	804,039	-	804,039
Real and other taxes	532,551	62,268	594,819
Accounts	233,603	1,419,086	1,652,689
Special assessments	348,728	1,364	350,092
Loans	1,044,730	-	1,044,730
Accrued interest	6,934	3,383	10,317
Internal balance	(241,530)	241,530	-
Due from other governments	470,946	4,012	474,958
Prepayments	71,252	188,018	259,270
Materials and supplies inventory	62,624	470,842	533,466
Investment in joint venture	-	1,249,865	1,249,865
Unamortized bond issue costs	-	26,385	26,385
Restricted assets:			
Equity in pooled cash and cash equivalents	-	389,008	389,008
Cash in segregated accounts	-	317,738	317,738
Refundable deposits	-	231,464	231,464
Cash with fiscal agent	58,929	-	58,929
Capital assets:			
Land	1,881,561	1,194,470	3,076,031
Depreciable capital assets, net	14,345,623	17,371,794	31,717,417
Total capital assets	<u>16,227,184</u>	<u>18,566,264</u>	<u>34,793,448</u>
Total assets	<u>32,572,584</u>	<u>32,504,117</u>	<u>65,076,701</u>

(continued)

CITY OF ST. MARYS, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Liabilities:			
Accounts payable	\$ 46,955	\$ 852,837	\$ 899,792
Retainage payable	35,401	-	35,401
Accrued wages and benefits	54,667	48,206	102,873
Due to other governments	111,199	33,982	145,181
Claims payable	129,229	-	129,229
Judgements payable	6,500	-	6,500
Deferred revenue	514,755	-	514,755
Accrued interest payable	5,846	26,603	32,449
Notes payable	435,000	2,767,000	3,202,000
Payable from restricted assets:			
Accrued interest payable	-	19,913	19,913
Refundable deposits	-	231,464	231,464
Long-term liabilities:			
Due within one year	62,865	412,026	474,891
Due in more than one year	264,447	5,771,270	6,035,717
	<hr/>	<hr/>	<hr/>
Total liabilities	1,666,864	10,163,301	11,830,165
Net assets:			
Invested in capital assets, net of related debt	15,792,184	13,615,117	29,407,301
Restricted for:			
Capital projects	6,117,656	-	6,117,656
Debt service	22,673	-	22,673
Operations	-	418,172	418,172
Improvements and replacements	-	450,621	450,621
Transportation projects	1,234,415	-	1,234,415
Community improvements	2,162,854	-	2,162,854
Other purposes	119,674	-	119,674
Unrestricted	5,456,264	7,856,906	13,313,170
	<hr/>	<hr/>	<hr/>
Total net assets	<u>\$ 30,905,720</u>	<u>\$ 22,340,816</u>	<u>\$ 53,246,536</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 1,123,504	\$ 131,287	\$ -	\$ -
Security of persons and property	2,300,612	249,306	4,100	3,056
Public health and welfare	7,537	888	-	-
Transportation	1,423,515	6,773	403,398	104,045
Community environment	82,167	2,016	-	-
Leisure time activity	324,005	120,936	-	-
Interest and fiscal charges	34,831	116,545	-	-
Total governmental activities	<u>5,296,171</u>	<u>627,751</u>	<u>407,498</u>	<u>107,101</u>
Business-type Activities:				
Water	1,346,116	1,226,015	-	66,031
Sewer	1,114,001	1,518,101	-	100,066
Electric	12,720,375	12,234,678	-	-
Refuse	989,404	871,371	-	-
Total business-type activities	<u>16,169,896</u>	<u>15,850,165</u>	<u>-</u>	<u>166,097</u>
Total primary government	<u>\$ 21,466,067</u>	<u>\$ 16,477,916</u>	<u>\$ 407,498</u>	<u>\$ 273,198</u>

General Revenues:

Property taxes levied for:

- General operations
- Special purposes

Income taxes levied for:

- General operations
- Capital projects

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues

Transfers

Change in net assets

Net assets at beginning of year (restated).

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net Revenue (Expense) and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (992,217)	\$ -	\$ (992,217)
(2,044,150)	-	(2,044,150)
(6,649)	-	(6,649)
(909,299)	-	(909,299)
(80,151)	-	(80,151)
(203,069)	-	(203,069)
81,714	-	81,714
<u>(4,153,821)</u>	<u>-</u>	<u>(4,153,821)</u>
-	(54,070)	(54,070)
-	504,166	504,166
-	(485,697)	(485,697)
<u>-</u>	<u>(118,033)</u>	<u>(118,033)</u>
-	(153,634)	(153,634)
<u>(4,153,821)</u>	<u>(153,634)</u>	<u>(4,307,455)</u>
1,183,059	-	1,183,059
90,692	-	90,692
2,807,576	-	2,807,576
1,314,697	-	1,314,697
615,854	-	615,854
748,991	288,499	1,037,490
117,440	7,335	124,775
<u>6,878,309</u>	<u>295,834</u>	<u>7,174,143</u>
<u>(828,402)</u>	<u>828,402</u>	<u>-</u>
1,896,086	970,602	2,866,688
<u>29,009,634</u>	<u>21,370,214</u>	<u>50,379,848</u>
<u>\$ 30,905,720</u>	<u>\$ 22,340,816</u>	<u>\$ 53,246,536</u>

CITY OF ST. MARYS, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>Special Assessment Bond Retirement</u>	<u>Voted Income Tax</u>	<u>Capital Improvements</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 4,193,235	\$ 26,682	\$ 3,429,381	\$ 2,549,346
Receivables (net of allowance for uncollectibles):				
Income taxes.	538,706	-	265,333	-
Real and other taxes.	421,585	-	-	-
Accounts.	23,810	-	-	-
Special assessments	-	327,161	-	-
Loans	-	-	-	-
Interfund loans	65,000	-	-	-
Accrued interest	5,570	-	1,242	-
Due from other funds.	59,942	-	-	-
Due from other governments	276,842	-	-	-
Prepayments	59,878	-	-	-
Materials and supplies inventory	23,295	-	-	-
Restricted assets:				
Cash with fiscal agent.	-	-	-	-
Total assets	<u>\$ 5,667,863</u>	<u>\$ 353,843</u>	<u>\$ 3,695,956</u>	<u>\$ 2,549,346</u>
Liabilities:				
Accounts payable.	\$ 39,442	\$ -	\$ 1,140	\$ -
Retainage payable.	-	-	35,401	-
Accrued wages and benefits	45,318	-	797	-
Interfund loans payable	-	331,170	-	-
Due to other governments	27,675	-	671	-
Judgements payable	6,500	-	-	-
Deferred revenue.	941,069	327,161	159,279	-
Notes payable	-	-	-	-
Total liabilities	<u>1,060,004</u>	<u>658,331</u>	<u>197,288</u>	<u>-</u>
Fund balances:				
Reserved for encumbrances	77,305	-	380,222	23,212
Reserved for materials and supplies inventory.	23,295	-	-	-
Reserved for prepayments	59,878	-	-	-
Reserved for loans	-	-	-	-
Reserved for restricted assets.	-	-	-	-
Unreserved, undesignated (deficit), reported in:				
General fund	4,447,381	-	-	-
Special revenue funds.	-	-	-	-
Debt service fund	-	(304,488)	-	-
Capital projects funds.	-	-	3,118,446	2,526,134
Total fund balances.	<u>4,607,859</u>	<u>(304,488)</u>	<u>3,498,668</u>	<u>2,549,346</u>
Total liabilities and fund balances	<u>\$ 5,667,863</u>	<u>\$ 353,843</u>	<u>\$ 3,695,956</u>	<u>\$ 2,549,346</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ 2,708,635	\$ 12,907,279
-	804,039
110,966	532,551
-	23,810
21,567	348,728
1,044,730	1,044,730
-	65,000
-	6,812
-	59,942
194,104	470,946
11,374	71,252
12,517	35,812
58,929	58,929
<u>\$ 4,162,822</u>	<u>\$ 16,429,830</u>
\$ -	\$ 40,582
-	35,401
7,711	53,826
-	331,170
82,263	110,609
-	6,500
308,016	1,735,525
435,000	435,000
<u>832,990</u>	<u>2,748,613</u>
212,289	693,028
12,517	35,812
11,374	71,252
1,044,730	1,044,730
58,929	58,929
-	4,447,381
2,230,284	2,230,284
-	(304,488)
(240,291)	5,404,289
<u>3,329,832</u>	<u>13,681,217</u>
<u>\$ 4,162,822</u>	<u>\$ 16,429,830</u>

CITY OF ST. MARYS, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total governmental fund balances	\$	13,681,217
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities (excluding internal service fund capital assets) are not financial resources and therefore are not reported in the funds.		16,180,684
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income tax revenue	\$ 478,900	
Property tax revenue	15,431	
Special assessment revenue	348,728	
Intergovernmental revenue	365,863	
Interest revenue	6,812	
Other revenues	5,036	
Total		1,220,770
The internal service funds are used by management to charge the costs of employee insurance and the maintenance garage to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net assets of the internal service funds, including an internal balance of \$29,698, are:		147,162
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:		
Compensated absences	318,267	
Accrued interest	5,846	
Total		(324,113)
Net assets of governmental activities	\$	30,905,720

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF ST. MARYS, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Special Assessment Bond Retirement</u>	<u>Voted Income Tax</u>	<u>Capital Improvements</u>
Revenues:				
Income taxes	\$ 2,774,523	\$ -	\$ 1,298,417	\$ -
Real and other taxes	1,189,362	-	-	-
Charges for services	266,422	-	-	-
Licenses, permits and fees	93,762	-	-	-
Fines and forfeitures	24,117	-	-	-
Special assessments	-	105,900	-	-
Intergovernmental	615,841	-	-	-
Investment income	532,779	28,734	122,339	-
Rental income	16,917	-	-	-
Other	39,325	-	37,583	-
Total revenues	<u>5,553,048</u>	<u>134,634</u>	<u>1,458,339</u>	<u>-</u>
Expenditures:				
Current:				
General government	1,076,259	-	-	-
Security of persons and property.	2,028,555	-	-	-
Public health and welfare	7,290	-	-	-
Transportation	-	-	-	-
Community environment.	16,524	-	-	-
Leisure time activity	160,488	-	-	-
Capital outlay.	-	-	977,307	141,355
Debt service:				
Interest and fiscal charges	-	16,108	-	-
Total expenditures	<u>3,289,116</u>	<u>16,108</u>	<u>977,307</u>	<u>141,355</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>2,263,932</u>	<u>118,526</u>	<u>481,032</u>	<u>(141,355)</u>
Other financing sources (uses):				
Transfers in	-	4,152	-	266,500
Transfers out	<u>(2,059,339)</u>	<u>(134,152)</u>	-	-
Total other financing sources (uses)	<u>(2,059,339)</u>	<u>(130,000)</u>	-	<u>266,500</u>
Net change in fund balances	204,593	(11,474)	481,032	125,145
Fund balances at beginning of year (restated) .	4,404,474	(293,014)	3,017,636	2,424,201
Decrease in reserve for inventory.	<u>(1,208)</u>	-	-	-
Fund balances at end of year	<u>\$ 4,607,859</u>	<u>\$ (304,488)</u>	<u>\$ 3,498,668</u>	<u>\$ 2,549,346</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,072,940
92,042	1,281,404
101,359	367,781
-	93,762
1,856	25,973
3,215	109,115
491,423	1,107,264
56,964	740,816
-	16,917
35,496	112,404
<u>782,355</u>	<u>7,928,376</u>
-	1,076,259
227,264	2,255,819
-	7,290
672,707	672,707
68,051	84,575
82,119	242,607
198,175	1,316,837
20,606	36,714
<u>1,268,922</u>	<u>5,692,808</u>
<u>(486,567)</u>	<u>2,235,568</u>
1,098,589	1,369,241
<u>(4,152)</u>	<u>(2,197,643)</u>
<u>1,094,437</u>	<u>(828,402)</u>
607,870	1,407,166
2,722,766	12,276,063
<u>(804)</u>	<u>(2,012)</u>
<u>\$ 3,329,832</u>	<u>\$ 13,681,217</u>

CITY OF ST. MARYS, OHIO

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds	\$	1,407,166
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,451,422) exceeded depreciation expense (\$1,009,462) in the current period. Both amounts are exclusive of internal service funds activity.		441,960
Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed.		(2,012)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		86,292
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.		1,883
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.		(31,343)
The internal service funds used by management to charge the costs of employee insurance and the maintenance garage to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds, including internal balance activity of \$37,825, is allocated among the governmental activities.		(7,860)
Change in net assets of governmental activities.	\$	1,896,086

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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 4,200,000	\$ 4,200,000	\$ 4,098,099	\$ (101,901)
Real and other taxes	410,877	410,877	399,677	(11,200)
Charges for services	215,017	215,017	280,890	65,873
Licenses, permits and fees	61,902	61,902	80,866	18,964
Fines and forfeitures	18,517	18,517	24,190	5,673
Intergovernmental	471,972	471,972	616,568	144,596
Investment income	407,833	407,833	532,779	124,946
Rental income	12,950	12,950	16,917	3,967
Other	29,685	29,685	38,779	9,094
Total revenues	<u>5,828,753</u>	<u>5,828,753</u>	<u>6,088,765</u>	<u>260,012</u>
Expenditures:				
Current:				
General government	901,807	1,008,557	966,625	41,932
Security of persons and property	2,476,485	2,492,485	1,912,098	580,387
Public health and welfare	25,550	25,550	7,347	18,203
Community environment	31,000	31,000	18,339	12,661
Leisure time activities	251,827	251,827	167,215	84,612
Debt service:				
Principal retirement	250,000	250,000	250,000	-
Interest and fiscal charges	20,000	20,000	16,454	3,546
Total expenditures	<u>3,956,669</u>	<u>4,079,419</u>	<u>3,338,078</u>	<u>741,341</u>
Excess of revenues over expenditures	<u>1,872,084</u>	<u>1,749,334</u>	<u>2,750,687</u>	<u>1,001,353</u>
Other financing sources (uses):				
Transfers in	2,072,317	2,072,317	2,707,202	634,885
Transfers out	(5,484,040)	(5,487,797)	(5,346,703)	141,094
Advances out	-	(65,000)	(65,000)	-
Sale of capital assets	1,682	1,682	2,197	515
Total other financing sources (uses)	<u>(3,410,041)</u>	<u>(3,478,798)</u>	<u>(2,702,304)</u>	<u>776,494</u>
Net change in fund balance	(1,537,957)	(1,729,464)	48,383	1,777,847
Fund balance at beginning of year	3,940,017	3,940,017	3,940,017	-
Prior year encumbrances appropriated	<u>88,088</u>	<u>88,088</u>	<u>88,088</u>	<u>-</u>
Fund balance at end of year	<u>\$ 2,490,148</u>	<u>\$ 2,298,641</u>	<u>\$ 4,076,488</u>	<u>\$ 1,777,847</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ST. MARYS, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006

Business-type Activities -

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 1,374,272	\$ 1,563,624	\$ 5,972,678
Cash in segregated accounts.	-	-	-
Receivables (net of allowance for uncollectibles):			
Real and other taxes.	-	-	62,268
Accounts	103,305	185,377	1,059,418
Special assessments.	275	1,089	-
Accrued interest.	734	643	2,006
Interfund loans	-	-	331,170
Due from other governments	-	-	-
Prepayments.	19,752	19,400	142,396
Materials and supplies inventory	173,451	29,167	265,114
Unamortized bond issuance costs	-	26,385	-
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents.	-	389,008	-
Deposits in segregated accounts.	-	317,738	-
Refundable deposits.	-	-	231,464
Investment in joint venture	-	-	1,249,865
Capital assets:			
Land	232,462	144,500	513,813
Depreciable capital assets, net	4,429,711	4,033,674	7,190,765
Total capital assets	<u>4,662,173</u>	<u>4,178,174</u>	<u>7,704,578</u>
Total assets.	<u>6,333,962</u>	<u>6,710,605</u>	<u>17,020,957</u>
Liabilities:			
Current liabilities:			
Accounts payable	9,369	38,648	796,756
Accrued wages and benefits.	8,814	8,992	25,477
Compensated absences payable.	13,873	12,272	45,104
Interfund loans payable	-	-	-
Due to other funds	-	-	59,942
Due to other governments	6,115	5,668	19,064
Accrued interest payable	-	3,289	23,314
Payable from restricted assets:			
Current portion of revenue bonds	-	260,000	-
Accrued interest payable.	-	-	-
Refundable deposits	-	-	231,464
Notes payable.	-	-	1,900,000
Claims payable	-	-	-
Long-term liabilities:			
Compensated absences	76,832	52,581	190,050
Revenue bonds payable.	-	435,202	-
General obligation bonds payable	-	-	1,515,330
Landfill closure/post closure liability.	-	-	-
Total liabilities	<u>115,003</u>	<u>816,652</u>	<u>4,806,501</u>
Net assets:			
Invested in capital assets, net of related debt.	4,662,173	3,509,357	4,289,248
Restricted for operations	-	418,172	-
Restricted for improvements and replacements.	-	450,621	-
Unrestricted (deficit)	1,556,786	1,515,803	7,925,208
Total net assets (deficit)	<u>\$ 6,218,959</u>	<u>\$ 5,893,953</u>	<u>\$ 12,214,456</u>

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

Net assets of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>	
<u>Refuse</u>	<u>Total</u>		
\$ 422,316	\$ 9,332,890	\$ 20,825	
-	-	24,490	
-	62,268	-	
70,986	1,419,086	-	
-	1,364	209,793	
-	3,383	122	
-	331,170	-	
4,012	4,012	-	
6,470	188,018	-	
3,110	470,842	26,812	
-	26,385	-	
-	389,008	-	
-	317,738	-	
-	231,464	-	
-	1,249,865	-	
303,695	1,194,470	-	
<u>1,717,644</u>	<u>17,371,794</u>	<u>46,500</u>	
<u>2,021,339</u>	<u>18,566,264</u>	<u>46,500</u>	
<u>2,528,233</u>	<u>32,593,757</u>	<u>328,542</u>	
8,064	852,837	6,373	
4,923	48,206	841	
3,888	75,137	9,045	
-	-	65,000	
-	59,942	-	
3,135	33,982	590	
-	26,603	-	
-	260,000	-	
19,913	19,913	-	
-	231,464	-	
867,000	2,767,000	-	
-	-	129,229	
18,784	338,247	-	
-	435,202	-	
-	1,515,330	-	
<u>3,559,380</u>	<u>3,559,380</u>	<u>-</u>	
<u>4,485,087</u>	<u>10,223,243</u>	<u>211,078</u>	
1,154,339	13,615,117	46,500	
-	418,172	-	
-	450,621	-	
<u>(3,111,193)</u>	<u>7,886,604</u>	<u>70,964</u>	
<u>\$ (1,956,854)</u>	<u>22,370,514</u>	<u>\$ 117,464</u>	
	(29,698)		
	<u>\$ 22,340,816</u>		

CITY OF ST. MARYS, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities -		
	Water	Sewer	Electric
Operating revenues:			
Charges for services	\$ 1,134,579	\$ 1,467,611	\$ 11,831,384
Tap-in fees.	38,167	571	-
Rental income	1,108	2,016	15,799
Other.	52,161	47,903	387,495
Total operating revenues	1,226,015	1,518,101	12,234,678
Operating expenses:			
Personal services	670,753	576,303	1,830,684
Contractual services.	202,063	201,717	835,472
Materials and supplies	233,644	46,790	9,248,991
Claims expense	-	-	-
Depreciation	234,119	203,095	565,585
Other	72	-	1,746
Total operating expenses.	1,340,651	1,027,905	12,482,478
Operating income (loss)	(114,636)	490,196	(247,800)
Nonoperating revenues (expenses):			
Interest and fiscal charges	-	(80,239)	(142,236)
Interest revenue.	22,724	28,993	209,086
Decrease in investment in joint venture	-	-	(72,649)
Other local tax revenue.	-	-	7,335
Excise tax expense	-	-	(7,335)
Total nonoperating revenues (expenses)	22,724	(51,246)	(5,799)
Net income (loss) before transfers and capital contributions.	(91,912)	438,950	(253,599)
Capital contributions	66,031	100,066	-
Transfers in	-	-	788,402
Changes in net assets	(25,881)	539,016	534,803
Net assets (deficit) at beginning of year (restated)	6,244,840	5,354,937	11,679,653
Net assets (deficit) at end of year	\$ 6,218,959	\$ 5,893,953	\$ 12,214,456

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

Changes in net assets of business-type

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Enterprise Funds</u>		<u>Governmental Activities - Internal Service Funds</u>
<u>Refuse</u>	<u>Total</u>	
\$ 613,933	\$ 15,047,507	\$ 1,216,419
-	38,738	-
231,660	250,583	-
25,778	513,337	227,761
<u>871,371</u>	<u>15,850,165</u>	<u>1,444,180</u>
305,705	3,383,445	66,702
518,288	1,757,540	602
14,497	9,543,922	290,980
-	-	1,134,572
106,910	1,109,709	3,000
-	1,818	-
<u>945,400</u>	<u>15,796,434</u>	<u>1,495,856</u>
<u>(74,029)</u>	<u>53,731</u>	<u>(51,676)</u>
(33,178)	(255,653)	-
27,696	288,499	5,991
-	(72,649)	-
-	7,335	-
-	(7,335)	-
<u>(5,482)</u>	<u>(39,803)</u>	<u>5,991</u>
(79,511)	13,928	(45,685)
-	166,097	-
40,000	828,402	-
<u>(39,511)</u>	<u>1,008,427</u>	<u>(45,685)</u>
<u>(1,917,343)</u>		<u>163,149</u>
<u>\$ (1,956,854)</u>		<u>\$ 117,464</u>
	<u>(37,825)</u>	
	<u>\$ 970,602</u>	

CITY OF ST. MARYS, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities -		
	Water	Sewer	Electric
Cash flows from operating activities:			
Cash received from charges for services	\$ 1,132,679	\$ 1,437,789	\$ 11,736,437
Cash received from tap-in fees.	38,167	571	-
Cash received from rental charges	1,108	1,846	15,799
Cash received from other operations.	55,459	8,949	473,638
Cash payments for personal services	(691,580)	(583,809)	(1,799,403)
Cash payments for contract services.	(206,400)	(238,501)	(863,974)
Cash payments for materials and supplies	(243,081)	(91,263)	(8,914,608)
Cash payments for claims expense.	-	-	-
Cash payments for other operations	(72)	-	(46,850)
Net cash provided by (used in) operating activities.	<u>86,280</u>	<u>535,582</u>	<u>601,039</u>
Cash flows from noncapital financing activities:			
Cash received from transfers in.	-	-	788,402
Cash received from advances in	-	-	-
Cash received from other local taxes.	-	-	7,335
Cash payments for excise tax expense	-	-	(7,335)
Net cash provided by noncapital financing activities.	<u>-</u>	<u>-</u>	<u>788,402</u>
Cash flows from capital and related financing activities:			
Cash payments for the acquisition of capital assets . .	(161,661)	(234,821)	(336,211)
Cash received from capital contributions	66,031	100,066	-
Cash received from notes issued.	-	-	1,900,000
Cash payments for principal retirement	-	(245,000)	(2,273,845)
Cash payments for interest and fiscal charges.	-	(43,650)	(142,084)
Net cash used in capital and related financing activities	<u>(95,630)</u>	<u>(423,405)</u>	<u>(852,140)</u>
Cash flows from investing activities:			
Cash received from interest earned	<u>22,510</u>	<u>28,806</u>	<u>208,482</u>
Net cash provided by investing activities.	<u>22,510</u>	<u>28,806</u>	<u>208,482</u>
Net increase (decrease) in cash and cash equivalents . .	13,160	140,983	745,783
Cash and cash equivalents at beginning of year . . .	<u>1,361,112</u>	<u>2,129,387</u>	<u>5,458,359</u>
Cash and cash equivalents at end of year.	<u>\$ 1,374,272</u>	<u>\$ 2,270,370</u>	<u>\$ 6,204,142</u>

Enterprise Funds		Governmental Activities - Internal Service Funds	
Refuse	Total		
\$ 612,702	\$ 14,919,607	\$ 1,216,419	
-	38,738	-	
231,010	249,763	-	
28,422	566,468	110,814	
(325,045)	(3,399,837)	(66,255)	
(487,265)	(1,796,140)	(602)	
(13,775)	(9,262,727)	(281,637)	
-	-	(1,082,681)	
-	(46,922)	-	
<hr/>	<hr/>	<hr/>	
46,049	1,268,950	(103,942)	
<hr/>	<hr/>	<hr/>	
40,000	828,402	-	
-	-	65,000	
-	7,335	-	
-	(7,335)	-	
<hr/>	<hr/>	<hr/>	
40,000	828,402	65,000	
<hr/>	<hr/>	<hr/>	
(125,714)	(858,407)	-	
-	166,097	-	
867,000	2,767,000	-	
(937,000)	(3,455,845)	-	
(30,368)	(216,102)	-	
<hr/>	<hr/>	<hr/>	
(226,082)	(1,597,257)	-	
<hr/>	<hr/>	<hr/>	
27,696	287,494	5,955	
<hr/>	<hr/>	<hr/>	
27,696	287,494	5,955	
<hr/>	<hr/>	<hr/>	
(112,337)	787,589	(32,987)	
<hr/>	<hr/>	<hr/>	
534,653	9,483,511	78,302	
<hr/>	<hr/>	<hr/>	
\$ 422,316	\$ 10,271,100	\$ 45,315	

(continued)

CITY OF ST. MARYS, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities -		
	Water	Sewer	Electric
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (114,636)	\$ 490,196	\$ (247,800)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	234,119	203,095	565,585
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable.	1,521	(68,220)	(75,309)
Increase in special assessments receivable.	(123)	(726)	-
Decrease in due from other governments	-	-	-
Increase in interfund loans receivable.	-	-	(7,680)
(Increase) decrease in materials and supplies inventory.	(7,026)	(5,817)	(35,061)
(Increase) decrease in prepayments.	(1,142)	(155)	(8,583)
Increase (decrease) in accounts payable	(787)	(35,808)	365,174
Decrease in contracts payable	(1,375)	(33,011)	(6,669)
Decrease in retainage payable	-	(2,394)	-
Increase (decrease) in accrued wages and benefits	1,614	(2,085)	120
Increase (decrease) in compensated absences payable	(22,008)	(4,110)	33,621
Decrease in due to other governments	(433)	(1,311)	(3,513)
Increase (decrease) in due to other funds	(3,444)	(4,072)	710
Increase in refundable deposits liability.	-	-	20,444
Increase in landfill closure/post closure liability	-	-	-
Increase in claims payable.	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 86,280</u>	<u>\$ 535,582</u>	<u>\$ 601,039</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Enterprise Funds</u>		<u>Governmental Activities -</u>
<u>Refuse</u>	<u>Total</u>	<u>Internal Service</u>
		<u>Funds</u>
\$ (74,029)	\$ 53,731	\$ (51,676)
106,910	1,109,709	3,000
(1,404)	(143,412)	(116,947)
-	(849)	-
2,167	2,167	-
-	(7,680)	-
722	(47,182)	3,474
1,510	(8,370)	-
(16,417)	312,162	5,869
-	(41,055)	-
-	(2,394)	-
(1,248)	(1,599)	(291)
(17,243)	(9,740)	904
(849)	(6,106)	(166)
-	(6,806)	-
-	20,444	-
45,930	45,930	-
-	-	51,891
<u>\$ 46,049</u>	<u>\$ 1,268,950</u>	<u>\$ (103,942)</u>

CITY OF ST. MARYS, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 100,550
Receivables:	
Income taxes	758,035
Accounts.	<u>6,000</u>
Total assets	<u>\$ 864,585</u>
Liabilities:	
Due to other governments.	\$ 769,304
Payroll withholdings	39,053
Undistributed assets.	<u>56,228</u>
Total liabilities	<u>\$ 864,585</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, 2006

NOTE 1 - DESCRIPTION OF THE CITY

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to influence significantly the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City in 2006. 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, 2006

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

JOINT VENTURE WITH EQUITY INTEREST

Ohio Municipal Electric Generation Agency Joint Venture

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. Under the terms of the Agreement each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2006 the City of St. Mary's has met their debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2006 was \$1,269,658 (Including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected). The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was \$1,249,865 at December 31, 2006. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2006 are:

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

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

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 76,889	\$ 75,567	\$ 152,456
2008	80,696	71,722	152,418
2009	84,693	67,687	152,380
2010	88,880	63,453	152,333
2011	93,638	58,787	152,425
2012-2016	546,980	214,838	761,818
2017-2020	<u>543,554</u>	<u>66,039</u>	<u>609,593</u>
Total Gross Liability	1,515,330	<u>\$ 618,093</u>	<u>\$ 2,133,423</u>
Less: Amounts Held in Reserve	<u>(245,672)</u>		
Net Obligation	<u>\$ 1,269,658</u>		

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

INSURANCE PURCHASING POOL

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

B. Basis of Presentation - Fund Accounting

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

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

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

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

C. Fund Accounting

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

E. Basis of Accounting

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

F. Budgetary Process

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

Tax Budget - A budget of estimated revenues and expenditures for all funds is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing or increased tax rates. The Auglaize County auditor waived this requirement for 2006.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Estimated Resources - The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. 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 2006.

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

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

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

G. Cash and Investments

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

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 Agent" and "Cash in Segregated Accounts".

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

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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. The State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

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 2006 was \$532,779, which includes \$339,086 assigned from other City funds.

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

H. Loans Receivable

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

I. Inventories of Materials and Supplies

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

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

J. Capital Assets

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

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

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

K. Compensated Absences

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

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

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

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

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, 2006**

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

M. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2006, 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, amounts due to other funds resulting from time lag between payment dates 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 net assets are restricted for resources necessary to comply with bond financing agreements.

The City reports amounts representing encumbrances, materials and supplies inventory, prepayments, loans, and restricted assets 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. In addition, restricted assets represent permissive tax monies held by Auglaize County.

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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 Deferred Charges on Advance Refunding

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

T. Estimates

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

U. Capital Contributions

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as nonoperating 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 first 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, tap-in fees and rental income for the water, sewer, electric and refuse 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, 2006

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 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Restatement of Fund Balance/Net Assets

The City has reported a prior period adjustment to properly report the City's internal borrowings as an interfund loan between the Special Assessment Bond Retirement fund and the Electric enterprise fund and to properly report equity in pooled cash of the Electric fund for errors in the prior year related to the recording of investments. The following is the effect on fund balance and net assets as previously reported at December 31, 2005:

	<u>Special Assessment Bond Retirement Fund</u>	<u>Electric Fund</u>
Fund balance / net assets, December 31, 2005	\$ 30,476	\$ 11,356,163
Restatement of equity in pooled cash	-	323,490
Restatement of interfund loans payable	<u>(323,490)</u>	<u>-</u>
Restated fund balance / net assets, December 31, 2005	<u>\$ (293,014)</u>	<u>\$ 11,679,653</u>

The above restatement had no effect on governmental activities net assets as previously reported at December 31, 2005.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances and Proprietary Fund Net Assets

Governmental fund balances and proprietary fund net assets include the following deficits as of December 31, 2006:

<u>Major Governmental Fund</u>	
Special Assessment Bond Retirement	\$ 304,488
<u>Nonmajor Governmental Funds</u>	
Special Assessment Improvement	109,777
Recreational Facility	230,600
<u>Major Enterprise Fund</u>	
Refuse	1,956,854

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. These deficit fund balances are the result of adjustments for accrued liabilities, notes payable reported as fund liabilities, and the landfill closure/post closure liability.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits in interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash in Segregated Accounts: At year-end, the City had \$24,490 deposited with a financial institution for monies related to the Self-Insurance internal service fund. This amount is included in the "Deposits with Financial Institutions" below.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Restricted Cash with Fiscal Agent: At year-end, the City had \$58,929 on deposit with a financial institution for permissive tax monies held by Auglaize County. The data regarding insurance and collateralization can be obtained from the Auglaize County financial report for the year ended December 31, 2006. This amount is not included in "Deposits with Financial Institutions" below.

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

A. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$13,169,194. As of December 31, 2006, \$300,000 of the City's bank balance of \$14,005,757 was covered by the Federal Deposit Insurance Corporation, and \$13,705,757 was exposed to custodial risk as discussed below.

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

B. Investments

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
FNMA	\$ 2,977,825	\$ 1,990,945	\$ 986,880
US Treasury Money Market	819,765	819,765	-
STAR Ohio	<u>6,026,290</u>	<u>6,026,290</u>	-
	<u>\$ 9,823,880</u>	<u>\$ 8,837,000</u>	<u>\$ 986,880</u>

The weighted average maturity of investments is 0.10 years.

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

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The City's other investments were rated AAA and Aaa by Standard & Poor's.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FNMA	\$ 2,977,825	30.31
US Treasury Money Market	819,765	8.34
STAR Ohio	<u>6,026,290</u>	<u>61.35</u>
Total	<u>\$ 9,823,880</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of December 31, 2006:

Cash and Investments per Note Disclosure

Carrying amount of deposits	\$ 13,169,194
Investments	9,823,880
Cash with fiscal agent	<u>58,929</u>
Total	<u>\$ 23,052,003</u>

Cash and Investments per Statement of Net Assets

Governmental activities	\$ 13,011,523
Business type activities	9,939,930
Agency funds	<u>100,550</u>
Total	<u>\$ 23,052,003</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 - INTERFUND TRANSACTIONS

- A. Transfers in and out consisted of the following, as reported in the fund financial statements for the fiscal year ended December 31, 2006:

Transfers out of General fund and to:

Capital Improvement fund	\$ 266,500
Nonmajor Governmental funds	964,437
Electric fund	788,402
Refuse fund	40,000

Transfers out of Special Assessment Bond Retirement fund and to:

Nonmajor Governmental funds	134,152
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Transfers out of Nonmajor Governmental funds and to:

Nonmajor Governmental funds	<u>4,152</u>
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Total \$ 2,197,643

All transfers were legal and in compliance with Ohio Revised Code. The most significant transfer that occurred during the year was an \$788,402 transfer from the General fund to the Electric fund. This transfer was related to the kilowatt hour tax that is collected in the general fund and pertains to electric operations. The transfer from the nonmajor governmental fund to nonmajor governmental fund was from the debt service fund to the special assessment bond retirement fund for principal and interest payments. Transfers between governmental funds are eliminated for reporting on the statement of activities.

- B. Interfund loans receivable and payable consisted of the following, as reported in the fund financial statements for the fiscal year ended December 31, 2006:

Interfund loans receivable in the General fund from:

Self-Insurance fund	\$ 65,000
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Interfund loans receivable in the Electric fund from:

Special Assessment Bond Retirement fund	<u>331,170</u>
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Total \$ 396,170

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

- C. Due from and to other funds consisted of the following, as reported in the fund financial statements for the fiscal year ended December 31, 2006:

Due to General fund from:

Electric fund	<u>\$ 59,942</u>
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Total \$ 59,942

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

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 2006 represent the collection of 2005 taxes. For 2006, real property taxes were levied after October 1, 2005 on the assessed values as of January 1, 2005, the lien date. These taxes will be collected in and are intended to finance 2006 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, 2005 on the assessed values as of December 31, 2005, 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 2006 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

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, 2006. 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 2006 operations.

CITY OF ST. MARYS, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 6 - PROPERTY TAXES - (Continued)

The full tax rate for all City operations for the year ended December 31, 2006 was \$5.32 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2006 property tax receipts were based are as follows:

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

NOTE 7 - LOCAL INCOME TAX

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

The City, by ordinance, allocates 1 percent of the income tax revenues to the General fund (0.72%), the Street Construction and Maintenance special revenue fund (0.18%), and the Capital Improvements capital projects fund (0.10%). The other 0.5 percent is allocated to the Voted Income Tax capital projects fund. For fiscal year 2006, in the fund financial statements, income tax revenue credited to the General fund and Voted Income Tax fund totaled \$2,774,523 and \$1,298,417, respectively.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2006 consisted of taxes, accounts (billings for user charged services), special assessments, loans, accrued interest and intergovernmental receivables arising from grants, entitlements, and shared revenues. All intergovernmental receivables have been reported as "Due From Other Governments" on the basic financial statements. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2006 and intended to finance fiscal 2006 operations.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - RECEIVABLES - (Continued)

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

<u>Receivables:</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Income taxes	\$ 804,039	\$ -
Real and other taxes	532,551	62,268
Accounts	233,603	1,419,086
Special assessments	348,728	1,364
Loans	1,044,730	-
Accrued interest	6,934	3,383
Due from other governments	<u>470,946</u>	<u>4,012</u>
Total	<u>\$ 3,441,531</u>	<u>\$ 1,490,113</u>

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

NOTE 9 - LOANS RECEIVABLE

Loans receivable represent low interest loans for development projects and home improvements granted to eligible City businesses and residents under the Community Development Block Grant (CDBG) program, a federal grant program which is accounted for in the CDBG special revenue fund. The loans have an annual interest rate of 3.00% - 7.00% and are repaid over periods ranging from five to thirty years. A summary of loans receivable activity during 2006 follows:

<u>Loans receivable:</u>	<u>Balance 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/06</u>
Business loans	\$ 1,119,941	\$ 50,000	\$ (125,211)	\$ 1,044,730
Individual home loans	<u>15,897</u>	<u>-</u>	<u>(15,897)</u>	<u>-</u>
Total	<u>\$ 1,135,838</u>	<u>\$ 50,000</u>	<u>\$ (141,108)</u>	<u>\$ 1,044,730</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

<u>Governmental Activities</u>	<u>Balance</u> 12/31/05	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> 12/31/06
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,881,561	\$ -	\$ -	\$ 1,881,561
<i>Total capital assets, not being depreciated</i>	<u>1,881,561</u>	<u>-</u>	<u>-</u>	<u>1,881,561</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,337,057	152,730	-	2,489,787
Buildings and improvements	1,320,432	16,297	-	1,336,729
Equipment and furniture	643,824	110,760	(15,150)	739,434
Vehicles	2,412,606	52,367	(32,178)	2,432,795
Infrastructure	16,099,117	1,119,268	-	17,218,385
<i>Total capital assets, being depreciated</i>	<u>22,813,036</u>	<u>1,451,422</u>	<u>(47,328)</u>	<u>24,217,130</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(578,319)	(86,303)	-	(664,622)
Buildings and improvements	(758,902)	(33,649)	-	(792,551)
Equipment and furniture	(410,704)	(50,658)	15,150	(446,212)
Vehicles	(1,683,964)	(110,823)	32,178	(1,762,609)
Infrastructure	(5,474,484)	(731,029)	-	(6,205,513)
<i>Total accumulated depreciation</i>	<u>(8,906,373)</u>	<u>(1,012,462)</u>	<u>47,328</u>	<u>(9,871,507)</u>
Total capital assets, net	<u>\$ 15,788,224</u>	<u>\$ 438,960</u>	<u>\$ -</u>	<u>\$ 16,227,184</u>
			<u>Depreciation</u>	
			<u>Expense</u>	
General government			\$ 103,095	
Security of persons and property			86,280	
Public health and welfare			473	
Transportation			731,029	
Community environment			215	
Leisure time activities			88,370	
Capital assets held by the internal service funds are charged to various functions based upon their usage of the capital assets			<u>3,000</u>	
Total depreciation expense			<u>\$ 1,012,462</u>	

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS - (Continued)

	Balance			Balance
<u>Business-Type Activities</u>	<u>12/31/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,194,470	\$ -	\$ -	\$ 1,194,470
<i>Total capital assets, not being depreciated</i>	<u>1,194,470</u>	<u>-</u>	<u>-</u>	<u>1,194,470</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	4,969,251	-	-	4,969,251
Buildings and improvements	5,141,959	48,891	-	5,190,850
Equipment and furniture	10,046,752	336,042	-	10,382,794
Vehicles	2,257,098	207,785	(120,479)	2,344,404
Infrastructure	<u>16,668,566</u>	<u>265,689</u>	<u>-</u>	<u>16,934,255</u>
<i>Total capital assets, being depreciated</i>	<u>39,083,626</u>	<u>858,407</u>	<u>(120,479)</u>	<u>39,821,554</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(2,094,571)	(176,571)	-	(2,271,142)
Buildings and improvements	(3,485,841)	(130,188)	-	(3,616,029)
Equipment and furniture	(7,763,667)	(255,163)	-	(8,018,830)
Vehicles	(1,766,082)	(119,157)	119,504	(1,765,735)
Infrastructure	<u>(6,349,394)</u>	<u>(428,630)</u>	<u>-</u>	<u>(6,778,024)</u>
<i>Total accumulated depreciation</i>	<u>(21,459,555)</u>	<u>(1,109,709)</u>	<u>119,504</u>	<u>(22,449,760)</u>
Total capital assets, net	<u>\$ 18,818,541</u>	<u>\$ (251,302)</u>	<u>\$ (975)</u>	<u>\$ 18,566,264</u>
<u>Business-Type Activities:</u>		<u>Depreciation</u>		
		<u>Expense</u>		
Water fund		\$ 234,119		
Sewer fund		203,095		
Electric fund		565,585		
Refuse fund		<u>106,910</u>		
Total depreciation expense		<u>\$ 1,109,709</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.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - COMPENSATED ABSENCES - (Continued)

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

NOTE 12 - LONG-TERM OBLIGATIONS

Governmental activities changes in long-term obligations for the year ended December 31, 2006 were as follows. The beginning balance has been restated due to reclassification of the special assessment bonds to interfund loans payable as a result of internal borrowings (see Note 3B). Compensated absences will be paid out of the fund from which the employee's salary is paid, which includes the General fund, the Street Construction & Maintenance special revenue fund, and the City Garage internal service fund.

	(Restated) Balance				Balance	Amounts Due Within
<u>Governmental Activities:</u>	<u>12/31/05</u>	<u>Increases</u>	<u>Decreases</u>		<u>12/31/06</u>	<u>One Year</u>
<u>Other Long-Term Obligations</u>						
Compensated absences payable	\$ 300,122	\$ 104,056	\$ (76,866)		\$ 327,312	\$ 62,865
Total Long-Term Obligations	<u>\$ 300,122</u>	<u>\$ 104,056</u>	<u>\$ (76,866)</u>		<u>\$ 327,312</u>	<u>\$ 62,865</u>

Business-type activities changes in long-term obligations for the year ended December 31, 2006 were as follows. Compensated absences will be paid out of the fund from which the employee's salary is paid, which includes the Water enterprise fund, the Sewer enterprise fund, the Electric enterprise fund, and the Refuse enterprise fund.

	Interest	Balance			Balance	Amounts Due Within
<u>Business-Type Activities:</u>	<u>Rate</u>	<u>12/31/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/06</u>	<u>One Year</u>
<u>Revenue Bonds</u>						
Sanitary Sewer System Refunding	4.75-5.15%	\$ 1,020,000	\$ -	\$ (245,000)	\$ 775,000	\$ 260,000
<u>General Obligation Bonds</u>						
OMEGA JV2 Electric Project	3.81%	1,589,175	-	(73,845)	1,515,330	76,889
<u>Other Long-Term Obligations</u>						
Compensated absences payable		423,124	100,410	(110,150)	413,384	75,137
Landfill closure/postclosure liability		3,513,450	45,930	-	3,559,380	-
Total Other Long-Term Obligations		<u>3,936,574</u>	<u>146,340</u>	<u>(110,150)</u>	<u>3,972,764</u>	<u>75,137</u>
Total Long-Term Obligations		<u>\$ 6,545,749</u>	<u>\$ 146,340</u>	<u>\$ (428,995)</u>	6,263,094	<u>\$ 412,026</u>
Less: Unamortized deferred charges on advance refunding					(79,798)	
Total Long-Term Obligations reported on Statement of Net Assets					<u>\$ 6,183,296</u>	

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Revenue Bonds - The revenue bonds are a liability of the Sewer enterprise fund and pledge its operating revenues for repayment. The bonds also pledge the full faith and credit and taxing authority of the City in the event the operating revenues are not sufficient to meet the principal and interest requirements. The Sanitary Sewer System Refunding Revenue Bonds, Series 1996 are reported on the statement of net assets net of the amortized loss on advance refunding of \$79,798.

At December 31, 2006, the principal and interest requirements to retire the business-type activities long-term obligations are as follows:

Year	Revenue Bonds			General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 260,000	\$ 39,913	\$ 299,913	\$ 76,889	\$ 75,567	\$ 152,456
2008	270,000	26,522	296,522	80,696	71,722	152,418
2009	245,000	12,618	257,618	84,693	67,687	152,380
2010	-	-	-	88,880	63,453	152,333
2011	-	-	-	93,638	58,787	152,425
2012 - 2016	-	-	-	546,980	214,838	761,818
2017 - 2020	-	-	-	543,554	66,039	609,593
Total	<u>\$ 775,000</u>	<u>\$ 79,053</u>	<u>\$ 854,053</u>	<u>\$ 1,515,330</u>	<u>\$ 618,093</u>	<u>\$ 2,133,423</u>

Defeased Debt

In 1991, the City advance refunded revenue bonds and mortgage revenue bonds in the amounts of \$2,645,000 and \$3,540,000, respectively. The proceeds of these bonds and other assets were placed in an irrevocable trust for the payment of the bonds when due. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the basic financial statements. At December 31, 2006, revenue bonds and mortgage revenue bonds were outstanding in the amounts of \$440,833 and \$745,263, respectively.

In 2004, the City advance refunded mortgage revenue bonds in the amount of \$3,065,000. The proceeds of these bonds and other assets were placed in an irrevocable trust for the payment of the bonds when due. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the basic financial statements. At December 31, 2006, mortgage revenue bonds were outstanding in the amount of \$1,930,000.

In 2005, the City advance refunded revenue bonds in the amount of \$770,000. The proceeds of these bonds and other assets were placed in an irrevocable trust for the payment of the bonds when due. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the basic financial statements. At December 31, 2006, revenue bonds were outstanding in the amount of \$585,000.

Legal Debt Margins

At December 31, 2006, the City had a legal voted debt margin of \$11,943,679 and a legal unvoted debt margin of \$6,111,219.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - SHORT-TERM OBLIGATIONS

Governmental activities changes in short-term obligations for the year ended December 31, 2006 were as follows:

<u>Governmental Activities:</u>	<u>Series</u>	<u>Interest Rate</u>	<u>Balance</u>			<u>Balance 12/31/06</u>	<u>Amounts Due Within One Year</u>
			<u>12/31/05</u>	<u>Increases</u>	<u>Decreases</u>		
<u>Bond Anticipation Notes</u>							
General Purpose	2005	3.30%	\$ 500,000	\$ -	\$(500,000)	\$ -	\$ -
General Purpose	2006	4.10%	-	250,000	-	250,000	250,000
Street Program	2005	3.15%	130,000	-	(130,000)	-	-
Street Program	2006	4.25%	<u>-</u>	<u>185,000</u>	<u>-</u>	<u>185,000</u>	<u>185,000</u>
Total Short-Term Obligations			<u>\$ 630,000</u>	<u>\$ 435,000</u>	<u>\$(630,000)</u>	<u>\$ 435,000</u>	<u>\$ 435,000</u>

Business-type activities changes in short-term obligations for the year ended December 31, 2006 were as follows:

<u>Business-Type Activities:</u>	<u>Series</u>	<u>Interest Rate</u>	<u>Balance</u>			<u>Balance 12/31/06</u>	<u>Amounts Due Within One Year</u>
			<u>12/31/05</u>	<u>Increases</u>	<u>Decreases</u>		
<u>Bond Anticipation Notes</u>							
Electric Improvements	2005	3.20%	\$ 2,200,000	\$ -	\$(2,200,000)	\$ -	\$ -
Electric Improvements	2006	3.75%	-	1,900,000	-	1,900,000	1,900,000
Landfill Improvements	2005	3.25%	937,000	-	(937,000)	-	-
Landfill Improvements	2006	4.05%	<u>-</u>	<u>867,000</u>	<u>-</u>	<u>867,000</u>	<u>867,000</u>
Total Short-Term Obligations			<u>\$ 3,137,000</u>	<u>\$ 2,767,000</u>	<u>\$(3,137,000)</u>	<u>\$ 2,767,000</u>	<u>\$ 2,767,000</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, 2006

NOTE 14 - RISK MANAGEMENT

A. Property and Liability

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

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

There have been no significant reductions in insurance coverage from 2005, 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. Certain funds of the City participate in the self-insurance program and make payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior-year and current-year claims. For 2006, the City utilized a third party administrator, MedBen, Inc., to process all claims. The monthly premiums are \$324.26 for single coverage and \$765.99 for family coverage; the employee's share is \$60.06 and \$166.31, respectively. All premiums are paid into the Self-Insurance internal service fund. The cost to the City for the third party administrator is \$24.85 per employee per month.

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

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2006, is estimated by the third party administrator at \$129,229. The changes in the claims liability for 2006 and 2005 are as follows:

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - RISK MANAGEMENT - (Continued)

<u>Year</u>	<u>Beginning Balance</u>	<u>Changes in Claims Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 77,338	\$ 1,134,572	\$ (1,082,681)	\$ 129,229
2005	117,076	907,937	(947,675)	77,338

C. Workers' Compensation

For 2006, 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 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - PENSION PLANS - (Continued)

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004, were \$513,491, \$519,431, and \$505,140, respectively; 98.11% has been contributed for 2006 and 100% has been contributed for 2005 and 2004. The unpaid contribution for 2006 in the amount of \$9,710 is recorded as a liability.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 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 portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions for pension obligations to OP&F for the years ended December 31, 2006, 2005, and 2004, were \$260,149, \$294,106, and \$277,066, respectively; 70.30% has been contributed for 2006, and 100% was contributed for 2005 and 2004. The unpaid contribution for 2006 in the amount of \$77,269 has been recorded as a liability.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit 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 the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

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

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$183,335. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by 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 the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$56,917 for police and \$41,648 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ 48,383
Net adjustment for revenue accruals	(535,717)
Net adjustment for expenditure accruals	(67,785)
Net adjustment for other financing sources and uses	642,965
Adjustment for encumbrances	<u>116,747</u>
GAAP basis	<u>\$ 204,593</u>

CITY OF ST. MARYS, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 18 - RESTRICTED ASSETS AND NET ASSETS

Fund assets, whose use is restricted under the bond indentures for current and future debt service requirements, refundable electric customer deposits, operations, and improvements and replacements are presented as restricted assets and restricted net assets on the proprietary fund statement of net assets. These assets are further segregated between those held by the City and those held by trustees. The City also has permissive tax monies on deposit with Auglaize County in the amount of \$58,929. At December 31, 2006, restricted assets and net assets relating to the bond indentures were as follows:

	Restricted Assets and Net Assets		
	Sewer Fund	Electric Fund	Total
Restricted assets (equity in pooled cash):			
Current debt service on bonds	\$ 299,913	\$ -	\$ 299,913
Future debt service on bonds	17,825	-	17,825
Refundable deposits	-	231,464	231,464
Restricted net assets:			
Operations	418,172	-	418,172
Improvements and Replacements	450,621	-	450,621

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 \$3,559,380 at December 31, 2006 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 2006. 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, 2006

NOTE 20 - CONTRACTUAL COMMITMENTS

At December 31, 2006, the City had the following contractual commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Contract Balance</u>
American Municipal Power-Ohio	\$ 7,936,231	\$ 7,274,281	\$ 661,950
Arcadis FPS, Inc.	454,000	39,624	414,376
Celina Landfill	202,000	185,033	16,967
CRS Demolition	248,989	214,131	34,858
Dixon Engineering, Inc.	16,610	3,500	13,110
Dominion East Ohio	53,350	35,191	18,159
Heiberger Paving, Inc.	11,000	-	11,000
Hull & Associates, Inc.	106,484	94,956	11,528
Municipal Energy Services Agency	116,000	85,721	30,279
PAB Construction Co.	885,023	486,249	398,774
Penn Ohio Coal Co.	895,000	873,031	21,969
Power Generation Services	202,870	189,143	13,727
Power Plant Services, Inc.	86,855	8,719	78,136
Reed City Power Line Supply	39,009	6,191	32,818
Reynolds, Inc.	19,964	-	19,964
Scrub-A-Home, Inc.	83,700	-	83,700
Smith And Loveless	35,297	-	35,297
Solomon Corp.	26,280	-	26,280
Statewide Ford Lincoln Mercury	41,564	-	41,564
Superior Steel	10,000	-	10,000
Thermal Technology	21,227	-	21,227
Vorys, Sater, And Seymour	16,742	-	16,742
Total contractual commitments	<u>\$ 11,508,195</u>	<u>\$ 9,495,770</u>	<u>\$ 2,012,425</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, 2006.

B. Litigation

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



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys, as of and for the year ended December 31, 2006, which collectively comprise the City of St. Marys' basic financial statements and have issued our report thereon dated May 11, 2007. As disclosed in Note 3B to the basic financial statements, fund balance has been restated for the special assessment bond retirement fund due to a reclassification of internal borrowings. In addition, the electric fund cash and net assets has been restated due to errors in the prior year. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of St. Marys' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of St. Marys' internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of St. Marys' internal control over financial reporting.

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

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

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

Members of Council and Mayor
City of St. Marys

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City of St. Marys in a separate letter dated May 11, 2007.

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



Julian & Grube, Inc.
May 11, 2007



Mary Taylor, CPA
Auditor of State

CITY OF ST MARYS

AUGLAIZE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 17, 2007**