



Dave Yost • Auditor of State

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Members of Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of St. Marys, Auglaize County, Ohio (the City), as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of St. Marys, Auglaize County, Ohio, as of December 31, 2013 and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 20, 2014

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)**

The management's discussion and analysis of the City of St. Marys (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2013. 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 2013 are as follows:

- The total net position of the City decreased \$592,787. Net position of governmental activities decreased \$299,619 or 0.93% from 2012 and net position of business-type activities decreased \$293,168 or 1.13% from 2012.
- General revenues accounted for \$6,059,550 or 82.34% of total governmental activities revenue. Program specific revenues accounted for \$1,299,206 or 17.66% of total governmental activities revenue.
- The City had \$6,805,105 in expenses related to governmental activities; \$1,299,206 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$5,505,899 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$6,059,550. The governmental activities also had transfers out totaling \$853,270.
- The City's major governmental funds include the general fund and voted income tax fund. The general fund had revenues and other financing sources of \$4,440,616 in 2013. The expenditures and other financing uses of the general fund totaled \$5,150,830 in 2013. The general fund's increase in reserve for inventory totaled \$8,264 in 2013. The net decrease in fund balance for the general fund was \$701,950 or 19.87%.
- The voted income tax fund had revenues of \$1,380,486 in 2013. The expenditures of the voted income tax fund totaled \$1,648,645 in 2013. The net decrease in fund balance for the voted income tax fund was \$268,159 or 8.09%.
- Net position for the business-type activities, which are made up of the water, sewer, electric and refuse enterprise funds, decreased in 2013 by \$293,168. This decrease in net position resulted primarily from non-capitalized expenses in the electric fund related to the City's demolition of its unused power plant stack.
- In the general fund, the actual revenues and other financing sources were \$787,192 higher than the final budget amounts, and actual expenditures and other financing uses were \$791,749 less than the final budget amounts. The variance in the expenditures and other financing uses is the result of the City's conservative budgeting. Budgeted revenues and other financing sources did not change from the original to the final budget. Budgeted expenditures and other financing uses increased \$287,054 from the original to the final budget.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

Using this Annual Financial Report

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

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

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City perform financially during 2013?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The City's statement of net position and statement of activities can be found on pages 19-21 of this report.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 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 non-major funds. The City's only major governmental funds are the general fund and the voted income tax fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 23-26 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric, and refuse functions. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 28-32 of this report.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 33 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 35-71 of this report.

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. The table below provides a summary of the City's net position at December 31, 2013 and December 31, 2012.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$13,759,368	\$14,567,388	\$14,787,920	\$15,877,631	\$28,547,288	\$30,445,019
Capital assets, net	19,443,576	18,999,996	28,461,134	29,445,130	47,904,710	48,445,126
Total assets	<u>33,202,944</u>	<u>33,567,384</u>	<u>43,249,054</u>	<u>45,322,761</u>	<u>76,451,998</u>	<u>78,890,145</u>
Liabilities:						
Other liabilities	328,424	417,776	2,025,742	1,963,888	2,354,166	2,381,664
Long-term liabilities	491,797	455,445	15,517,787	17,360,180	16,009,584	17,815,625
Total liabilities	<u>820,221</u>	<u>873,221</u>	<u>17,543,529</u>	<u>19,324,068</u>	<u>18,363,750</u>	<u>20,197,289</u>
Deferred Inflows of Resources	<u>354,523</u>	<u>366,344</u>			<u>354,523</u>	<u>366,344</u>
Net Position						
Net investment in capital assets	19,406,576	18,969,996	17,608,205	18,022,697	37,014,781	36,992,693
Restricted	6,964,552	7,184,475			6,964,552	7,184,475
Unrestricted	5,657,072	6,173,348	8,097,320	7,975,996	13,754,392	14,149,344
Total net position	<u>\$32,028,200</u>	<u>\$32,327,819</u>	<u>\$25,705,525</u>	<u>\$25,998,693</u>	<u>\$57,733,725</u>	<u>\$58,326,512</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2013, the City's assets exceeded liabilities and deferred inflows of resources by \$57,733,725. At year end, net position was \$32,028,200 and \$25,705,525 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 position. At year end, capital assets represented 62.66% of total assets. Capital assets include land, construction in progress, easements, land improvements, buildings and improvements, equipment and furniture, vehicles, and infrastructure, and total \$19,443,576 and \$28,461,134 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's net investment in capital assets is reported net of related long-term obligations, it should be noted that the resources to repay debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

As of December 31, 2013, the City is able to report positive balances in all three categories of net position, 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 position, \$6,964,552, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$5,657,072 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net position for 2013 and 2012.

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services and sales	\$748,863	\$801,473	\$21,766,947	\$20,215,515	\$22,515,810	\$21,016,988
Operating grants and contributions	413,624	426,040			413,624	426,040
Capital grants and contributions	136,719	128,210		330,000	136,719	458,210
Total program revenues	<u>1,299,206</u>	<u>1,355,723</u>	<u>21,766,947</u>	<u>20,545,515</u>	<u>23,066,153</u>	<u>21,901,238</u>
General revenues:						
Property taxes	1,219,538	1,289,576			1,219,538	1,289,576
Income taxes	4,335,464	4,019,461			4,335,464	4,019,461
Unrestricted grants	322,069	445,232	7,165	5,831	329,234	451,063
Interest	53,946	58,166	19,532	27,115	73,478	85,281
Decrease in fair value of investments	(78,245)				(78,245)	
Miscellaneous	206,778	75,880	278,432	229,627	485,210	305,507
Total general revenues	<u>6,059,550</u>	<u>5,888,315</u>	<u>305,129</u>	<u>262,573</u>	<u>6,364,679</u>	<u>6,150,888</u>
Total revenues	<u>7,358,756</u>	<u>7,244,038</u>	<u>22,072,076</u>	<u>20,808,088</u>	<u>29,430,832</u>	<u>28,052,126</u>
Expenses:						
General government	981,835	993,965			981,835	993,965
Security of persons and property	3,327,821	3,382,546			3,327,821	3,382,546
Public health and welfare	64,094	34,235			64,094	34,235
Transportation	1,989,235	1,986,915			1,989,235	1,986,915
Community environment	73,370	77,644			73,370	77,644
Leisure time activity	363,381	400,517			363,381	400,517
Interest and fiscal charges	5,369	12,125			5,369	12,125
Water			1,341,278	1,369,045	1,341,278	1,369,045
Sewer			2,025,063	2,059,632	2,025,063	2,059,632
Electric			19,938,855	17,001,025	19,938,855	17,001,025
Refuse			828,853	781,103	828,853	781,103
Total expenses	<u>6,805,105</u>	<u>6,887,947</u>	<u>24,134,049</u>	<u>21,210,805</u>	<u>30,939,154</u>	<u>28,098,752</u>
Increase (decrease) in net position before special items and transfers	553,651	356,091	(2,061,973)	(402,717)	(1,508,322)	(46,626)
Special items			915,535		915,535	
Transfers	(853,270)	(872,666)	853,270	872,666		
Change in net position	(299,619)	(516,575)	(293,168)	469,949	(592,787)	(46,626)
Net position at beginning of year	<u>32,327,819</u>	<u>32,844,394</u>	<u>25,998,693</u>	<u>25,528,744</u>	<u>58,326,512</u>	<u>58,373,138</u>
Net position at end of year	<u>\$32,028,200</u>	<u>\$32,327,819</u>	<u>\$25,705,525</u>	<u>\$25,998,693</u>	<u>\$57,733,725</u>	<u>\$58,326,512</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

Governmental Activities

Miscellaneous revenue in the governmental activities increased during 2013 partially due to a State-wide refund received from the Ohio Bureau of Workers' Compensation. The governmental activities reported a decrease in fair value of investments due to the declining value of federal agency securities within the City's investment portfolio.

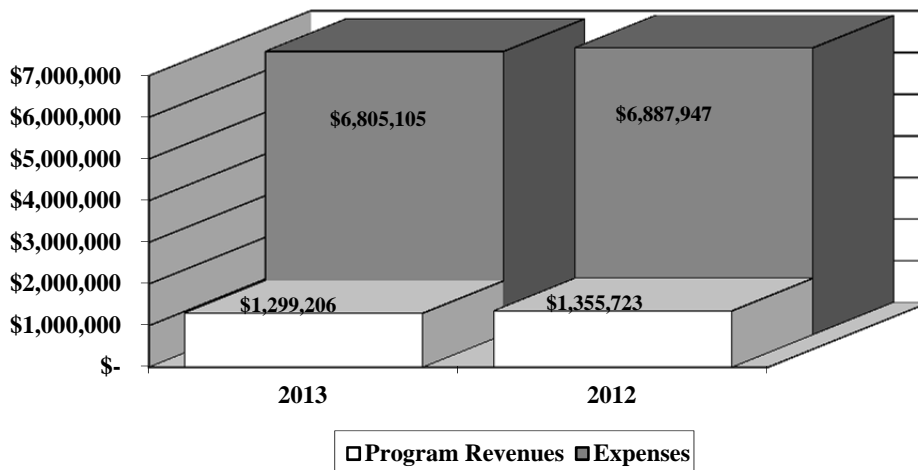
Overall, governmental activities net position decreased \$299,619 in 2013. Security of persons and property, which primarily supports the operations of the police and fire departments, accounted for \$3,327,821 of the total expenses of the City. These expenses were partially funded by \$438,551 in direct charges to users of the services and \$29,829 in capital grants and contributions. Transportation expenses totaled \$1,989,235 and were partially funded by \$44,449 in direct charges to users of the services, \$367,466 in operating grants and contributions, and \$103,390 in capital grants and contributions.

The State and federal government contributed to the City a total of \$413,624 in operating grants and contributions and \$136,719 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$367,466 subsidized transportation programs and \$46,158 subsidized community environment expenses. Of the total capital grants and contributions, \$29,829 subsidized security of persons and property programs, \$103,390 subsidized transportation programs, and \$3,500 subsidized leisure time activity expenses.

General revenues totaled \$6,059,550 or 82.34% of total governmental activities revenue. These revenues primarily consist of property and income tax revenue of \$5,555,002. 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 \$322,069 or 5.32% of the governmental activities general revenues.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2013 and 2012. That is, it identifies the cost of these services supported by tax revenue, unrestricted State grants and entitlements, and other general revenues. The graph below illustrates the City's dependence upon general revenues, as program revenues are not sufficient to cover total governmental expenses.

Governmental Activities – Program Revenues vs. Total Expenses



**CITY OF ST. MARYS
AUGLAIZE COUNTY**

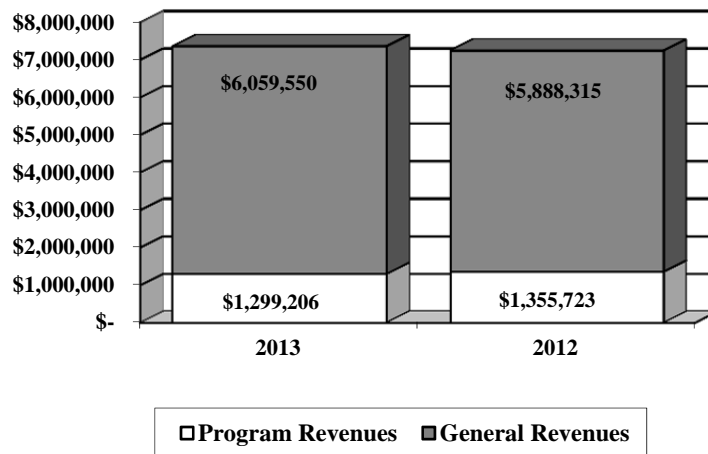
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

Governmental Activities				
	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Program expenses:				
General government	\$981,835	\$825,713	\$993,965	\$843,890
Security of persons and property	3,327,821	2,859,441	3,382,546	2,922,513
Public health and welfare	64,094	54,978	34,235	29,871
Transportation	1,989,235	1,473,930	1,986,915	1,427,533
Community environment	73,370	23,449	77,644	12,484
Leisure time activity	363,381	263,019	400,517	283,808
Interest and fiscal charges	5,369	5,369	12,125	12,125
Total expenses	\$6,805,105	\$5,505,899	\$6,887,947	\$5,532,224

The dependence upon general revenues for governmental activities is apparent, with 80.91% of expenses supported through taxes and other general revenues.

The chart below illustrates the City's program revenues versus general revenues for 2013 and 2012:

Governmental Activities – General and Program Revenues



Business-type Activities

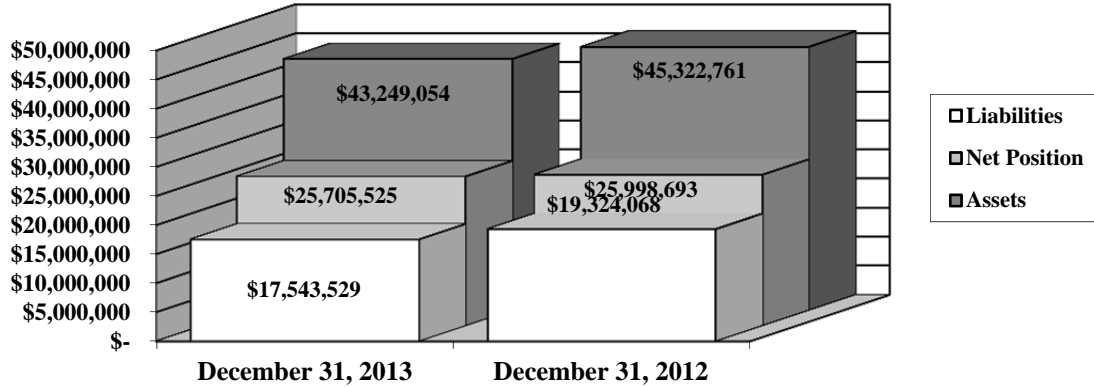
Business-type activities include the water, sewer, electric and refuse enterprise funds. These programs had program revenues of \$21,766,947, general revenues of \$305,129, special items of \$915,535, transfers in of \$853,270, and expenses of \$24,134,049 for 2013. The overall decrease in business-type activities net position is primarily due to an increase in electric expenses, specifically cash outlays for materials and supplies and non-capitalized contractual services expenses related to the City's demolition of its unused power plant stack. The business-type activities special item was reported in the electric fund and relates to a credit made available to the City from American Municipal Power of Ohio (AMP-Ohio) that essentially forgave a portion of the City's AMP-Ohio stranded cost payable. All other business-type activities sources and uses remained comparable to the prior year.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

The graph below illustrates the assets, liabilities, and net position of the City's business-type activities at December 31, 2013 and December 31, 2012.

Net Position of Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds, as presented on the balance sheet on page 23, reported a combined fund balance of \$12,099,276, which is \$704,683 lower than last year's total of \$12,803,959. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2013 and December 31, 2012 for all major and non-major governmental funds.

	<u>Fund Balances</u> <u>12/31/13</u>	<u>Fund Balances</u> <u>12/31/12</u>	<u>Increase/</u> <u>(Decrease)</u>
Major funds:			
General	\$2,830,256	\$3,532,206	(\$701,950)
Voted income tax	3,048,367	3,316,526	(268,159)
Non-major governmental funds	6,220,653	5,955,227	265,426
Total	<u>\$12,099,276</u>	<u>\$12,803,959</u>	<u>(\$704,683)</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

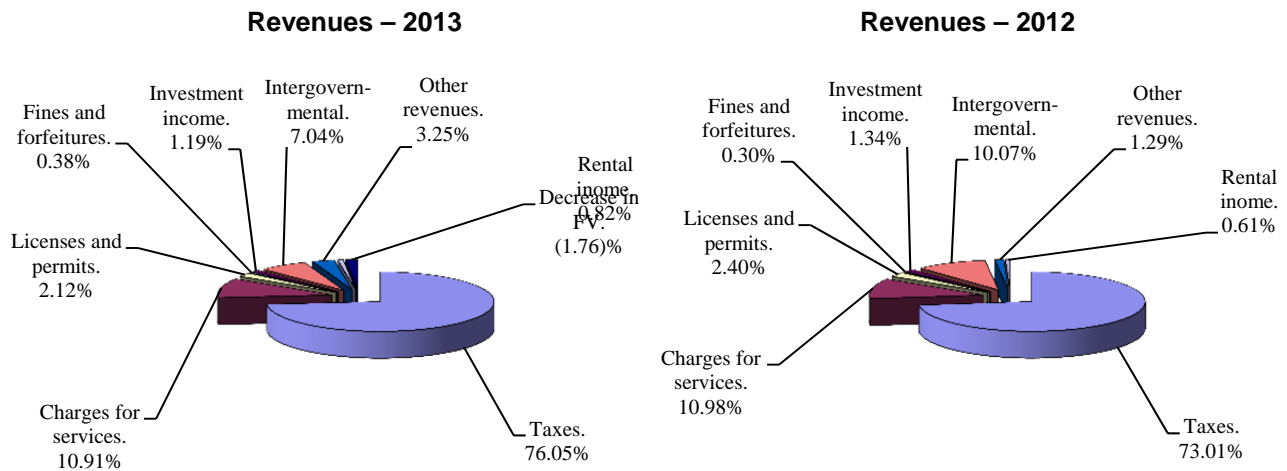
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

General Fund

The City's general fund balance decreased \$701,950. The table that follows assists in illustrating the revenues of the general fund.

	2013 Amount	2012 Amount	Percentage Change	
Revenues:				
Taxes	\$3,376,704	\$3,258,956	3.61	%
Charges for services	484,287	489,920	(1.15)	%
Licenses and permits	94,318	107,067	(11.91)	%
Fines and forfeitures	16,702	13,464	24.05	%
Intergovernmental	312,672	449,605	(30.46)	%
Investment income	53,059	59,749	(11.20)	%
Decrease in fair value of investments	(78,245)	-	(100.00)	%
Rental income	36,541	27,234	34.17	%
Other	144,259	57,436	151.16	%
Total	\$4,440,297	\$4,463,431	(0.52)	%

Overall, revenues of the general fund decreased \$23,134 or 0.52%. Tax revenue increased \$117,748 or 3.61% mainly due to an increase in income tax collections, which is attributable to the City's continually improving local economy. Intergovernmental revenue decreased \$136,933 or 30.46% primarily due to a decline in the local government funds allocation made available to the City during 2013. The general fund reported a decrease in fair value of investments during 2013 due to the declining value of federal agency securities within the City's investment portfolio. Other revenue increased \$86,823 or 151.16%, which is partially due to a State-wide refund received from the Ohio Bureau of Workers' Compensation. All other general fund revenues remained comparable to the prior year.



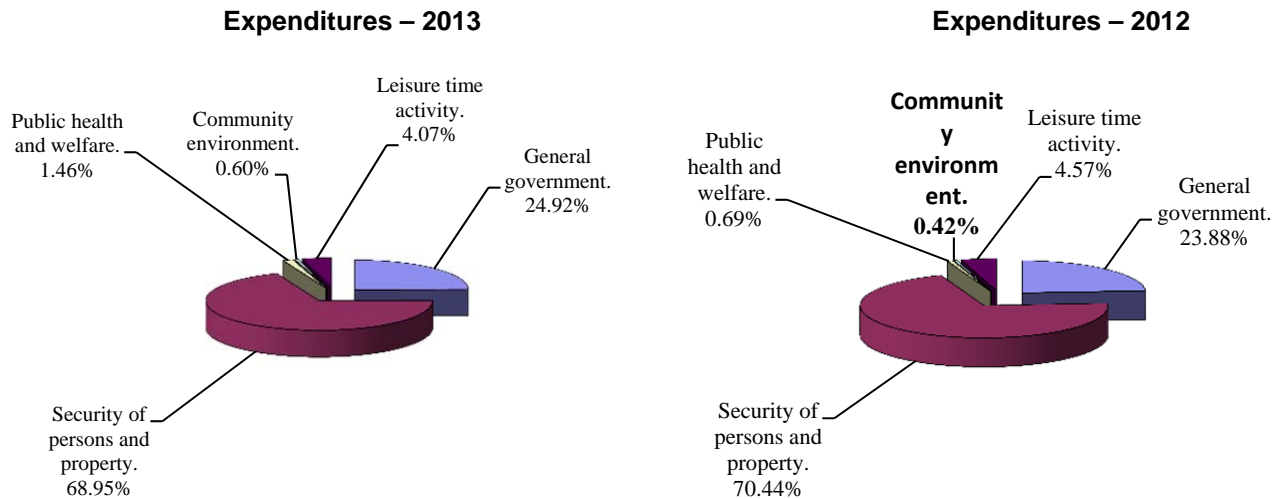
**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

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

Expenditures:	2013 Amount	2012 Amount	Percent Change
General government	\$980,927	\$901,697	8.79 %
Security of persons and property	2,713,571	2,659,987	2.01 %
Public health and welfare	57,279	26,221	118.45 %
Community environment	23,646	15,742	50.21 %
Leisure time activity	160,182	172,489	(7.13) %
Total	\$3,935,605	\$3,776,136	4.22 %

Overall, expenditures of the general fund increased \$159,469 or 4.22%. General government expenditures increased \$79,230 or 8.79% primarily due to increased costs attributable to the income tax department and City-wide general government operations. Public health and welfare expenditures increased \$31,058 or 118.45% mainly due to an increase in activities performed by the City's health and sanitation department. All other general fund expenditures remained comparable to the prior year.



Voted Income Tax Fund

The voted income tax fund had revenues of \$1,380,486 in 2013. The expenditures of the voted income tax fund totaled \$1,648,645 in 2013. The net decrease in fund balance for the voted income tax fund was \$268,159 or 8.09%. This decrease in fund balance is primarily attributable to an increase in capital expenditures incurred by the voted income tax fund during 2013.

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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

Budgetary information is presented for the general fund. In the general fund, the actual revenues and other financing sources were \$787,192 higher than the final budget amounts, and actual expenditures and other financing uses were \$791,749 less than the final budget amounts. The variance in the expenditures and other financing uses is the result of the City's conservative budgeting. Budgeted revenues and other financing sources did not change from the original to the final budget. Budgeted expenditures and other financing uses increased \$287,054 from the original to the final budget.

Proprietary Funds

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

Water Fund

The water fund had operating revenues of \$1,301,124 in 2013. The operating expenses of the water fund totaled \$1,344,314 in 2013. The water fund had non-operating revenues of \$1,600 in 2013. The water fund also received transfers in of \$551. The decrease in net position for the water fund was \$41,039 or 0.75%.

Sewer Fund

The sewer fund had operating revenues of \$2,011,059 in 2013. The operating expenses of the sewer fund totaled \$1,691,295 in 2013. The sewer fund had non-operating revenues of \$3,891 and non-operating expenses of \$336,881 in 2013. The sewer fund also received transfers in of \$390. The decrease in net position for the sewer fund was \$12,836 or 0.17%.

Electric Fund

The electric fund had operating revenues of \$17,834,079 in 2013. The operating expenses of the electric fund totaled \$19,786,129 in 2013. The electric fund had non-operating revenues of \$20,393 and non-operating expenses of \$156,978 in 2013. The electric fund also reported special items of \$915,535 and received transfers in of \$852,329. The decrease in net position for the electric fund was \$320,771 or 2.73%.

Refuse Fund

The refuse fund had operating revenues of \$899,117 in 2013. The operating expenses of the refuse fund totaled \$836,567 in 2013. The refuse fund had non-operating revenues of \$813 in 2013. The increase in net position for the refuse fund was \$63,363 or 6.56%.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

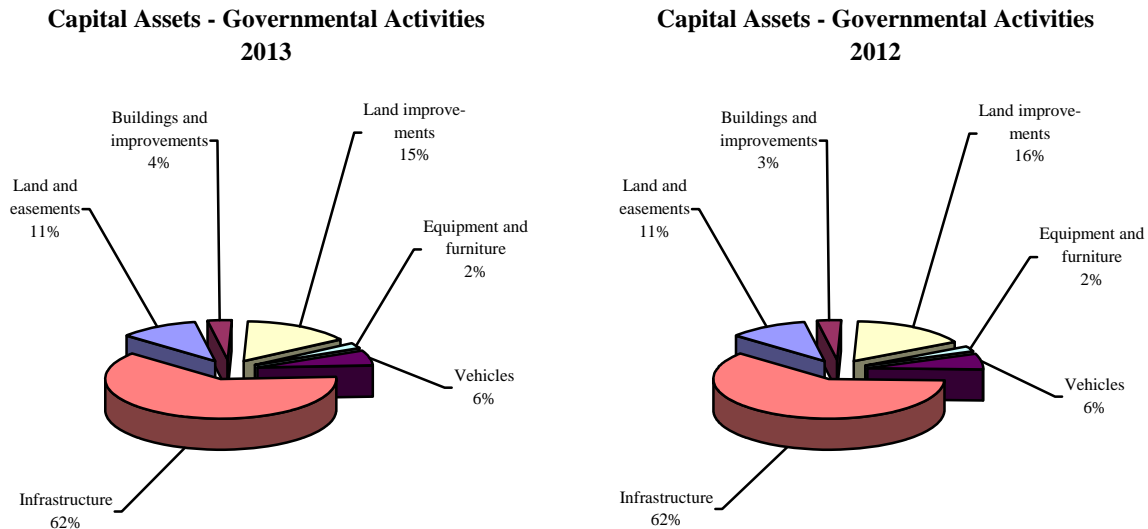
Capital Assets and Debt Administration

Capital Assets

At the end of 2013, the City had \$47,904,710 (net of accumulated depreciation) invested in land, easements, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. Of this total, \$19,443,576 was reported in governmental activities and \$28,461,134 was reported in business-type activities. The following table shows December 31, 2013 balances compared to December 31, 2012:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land and easements	\$2,146,694	\$2,089,694	\$1,221,910	\$1,221,910	\$3,368,604	\$3,311,604
Construction in progress			38,000	2,120,018	38,000	2,120,018
Land improvements	2,946,668	3,123,889	4,160,177	2,178,710	7,106,845	5,302,599
Buildings and improvements	663,132	661,938	10,640,834	11,177,671	11,303,966	11,839,609
Equipment and furniture	448,117	427,545	1,379,316	1,633,886	1,827,433	2,061,431
Vehicles	1,192,856	1,187,186	799,244	709,982	1,992,100	1,897,168
Infrastructure	12,046,109	11,509,744	10,221,653	10,402,953	22,267,762	21,912,697
Total	\$19,443,576	\$18,999,996	\$28,461,134	\$29,445,130	\$47,904,710	\$48,445,126

The following graphs show the breakdown of governmental capital assets by category at December 31, 2013 and December 31, 2012.

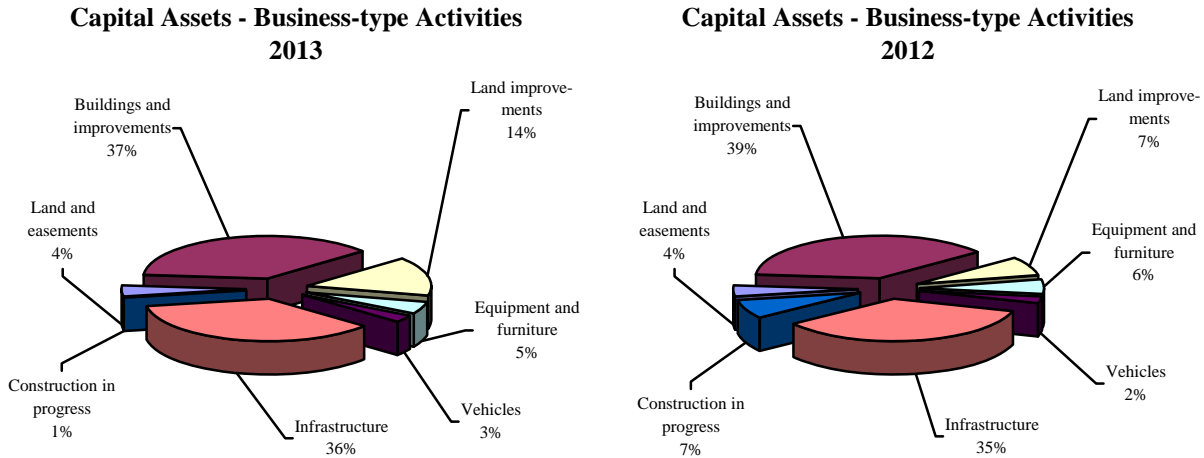


The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, curbs, annexed roadways, street lighting, and traffic signals. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant.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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

The following graphs show the breakdown of business-type capital assets by category at December 31, 2013 and December 31, 2012.



The City's largest business-type capital asset categories are buildings and improvements and infrastructure. The buildings and improvements asset category represents approximately 37% of the City's total business-type capital assets. Infrastructure items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 36% of the City's total business-type capital assets. Additional information on the City's capital assets can be found in Note 11.

Debt Administration

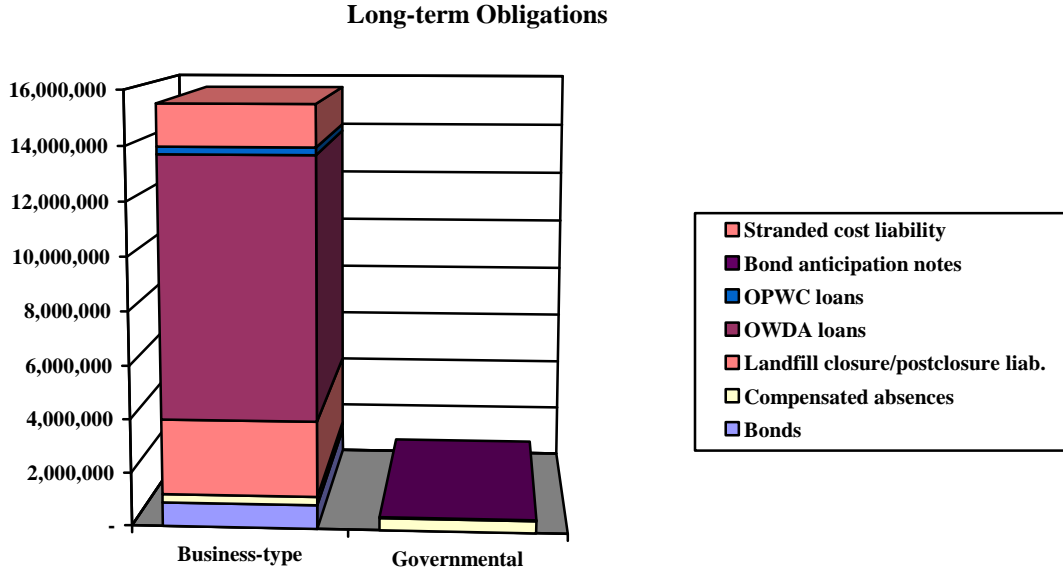
The City had the following long-term obligations outstanding at December 31, 2013 and December 31, 2012.

Governmental Activities		
	2013	2012
Bond anticipation notes	\$37,000	\$30,000
Compensated absences	454,797	425,445
Total long-term obligations	<u>\$491,797</u>	<u>\$455,445</u>
Business-type Activities		
General obligation bonds	\$888,224	\$991,949
Stranded cost liability	1,535,841	2,651,376
OWDA loans	9,687,205	10,137,984
OPWC loans	277,500	292,500
Landfill closure/post-closure liability	2,806,067	2,897,118
Compensated absences	322,950	389,253
Total long-term obligations	<u>\$15,517,787</u>	<u>\$17,360,180</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

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



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

Economic Conditions and Outlook

The industrial base in the City has been greatly diversified over the past 25 years primarily due to the success of several Japanese companies that started production in the City during the late 1980's.

Setex was the first Japanese company to call the City its home when it started the production of automobile seats for Honda in 1988. Over the past 25 years, Setex has experienced significant growth with employment levels increasing from the initial 65 employees to the current 500 employees. Setex also increased production capacity significantly by first doubling the size of their initial plant and later constructing a new weld facility for the production of seat frames for a variety of automobiles. Setex currently produces about 7,000 frames per day. In 2012, Setex celebrated the manufacture of its 5 millionth seat. Setex continues to manage multiple lines and recently acquired a new Acura line for Honda that will begin production later in 2014. Construction was completed in 2013 on a 40,000± square-foot building expansion to accommodate the new line, and the company began hiring for 85 new positions that are needed to meet new production goals.

AAP St. Marys Corporation, a division of Hitachi Metals America Ltd., established their aluminum wheel casting plant in the City in 1989. AAP St. Marys has also experienced tremendous growth with employment levels increasing from the initial 65 employees to the current 570 employees. With product demand back to pre-recession levels, AAP St. Marys is projecting continued growth through 2014. In 2013, AAP St. Marys completed construction of a 93,000± square-foot addition to its current facility to accommodate needs for increased production. The company also expects to hire over 30 new employees in the coming year. AAP St. Marys is a key to the stability of the industrial base in the City.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

The City has several other manufacturing facilities that add stability to the local economy. Parker Hannifin Corporation, a manufacturer of hydraulic cylinder components, employs approximately 134 employees and expects minimal but positive job growth through 2014. The company constructed its 130,000± square-foot St. Marys plant in 2000 and has additional acreage on site for new growth. Omni Manufacturing, Inc., a metal tooling and stamping plant, has enjoyed steady growth with an employment level near 130. Murotech Ohio (MTO) has steadily grown over the past several years and now employs 72. The company has regularly expanded its operations and continues to plan for future investment in equipment and job creation. In 2013, Murotech Ohio obtained a permit to construct an additional 15,000 square feet of space on its current facility. The St. Marys Foundry, Pro-Pet, Classic Delight, and others combine to offer diverse manufacturing jobs for families in the St. Marys area.

The Joint Township District Memorial Hospital remains the top non-manufacturing sector employer with approximately 600 employees. The hospital is considered a top health care facility in the United States and continues to improve services and upgrade the facility. A new ambulatory surgery center was opened in 2013, and a new pain management clinic is planned for 2014.

Retail growth was very strong in St. Marys in the recent past with construction of the Shoppes at St. Marys commercial development, which includes Kroger and Kohl's as anchor tenants. Superior Federal Credit Union recently opened a new banking facility on a commercial outlot in the development. Plans to add a 30,000 square-foot retail store near Kohl's and to add approximately 11,000 square feet of multi-tenant retail space were delayed in 2013, but are expected to proceed in 2014.

Veyance Technologies, Inc., formerly the Goodyear Tire & Rubber Company, continued to maintain its manufacturing operations in the City during 2013 and employs approximately 350 locally. Veyance has managed to keep the local Engineered Products Plant competitive and responsive to global market changes over the past several years. The primary product of the plant is rubber tracks and wheels for agricultural equipment. The company also makes industrial conveyor belts and rubber tank treads for use on U.S. Army battle tanks. The local Veyance plant has made major capital investments in machinery and equipment over the past several years and due to the growing agricultural business expects to invest in additional machinery and equipment. During 2013, Veyance made a significant investment in extending a high-pressure gas line to the facility in order to convert the company's furnaces to natural gas, which should be more efficient and cost-effective in the long-term. Proceedings began in 2014 for the acquisition of Veyance by Continental AG, a German company that would like to acquire Veyance in order to expand its industrial rubber track division.

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

For the Future

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

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)
(Continued)**

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

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

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

From the early canal days and into the 21st century, industry has found a home in the City. Businesses have been retained, with many undergoing expansions. The cooperative attitude between business and government has also resulted in many new industrial additions to the community over the past 16 years.

Contacting the City's Financial Management

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$10,469,634	\$10,848,383	\$21,318,017
Cash in segregated accounts	3,476		3,476
Receivables (net of allowance for uncollectibles):			
Income taxes	721,467		721,467
Real and other taxes	369,889	73,305	443,194
Accounts	55,675	2,197,313	2,252,988
Special assessments	240,298	3,472	243,770
Loans	1,368,408		1,368,408
Notes	131,108		131,108
Accrued interest	11,478		11,478
Internal balance	(83,285)	83,285	
Due from other governments	320,247	5,011	325,258
Prepayments	58,925	96,674	155,599
Materials and supplies inventory	85,596	448,181	533,777
Investment in joint venture		679,739	679,739
Restricted assets:			
Refundable cash deposits		352,557	352,557
Cash with fiscal agent	6,452		6,452
Capital assets:			
Non-depreciable capital assets	2,146,694	1,259,910	3,406,604
Depreciable capital assets, net	17,296,882	27,201,224	44,498,106
Total capital assets, net	<u>19,443,576</u>	<u>28,461,134</u>	<u>47,904,710</u>
Total assets	<u>33,202,944</u>	<u>43,249,054</u>	<u>76,451,998</u>
Liabilities:			
Accounts payable	118,578	1,512,519	1,631,097
Accrued wages and benefits	85,516	63,434	148,950
Due to other governments	121,267	97,232	218,499
Judgments payable	3,000		3,000
Accrued interest payable	63		63
Payable from restricted assets:			
Refundable cash deposits		352,557	352,557
Long-term liabilities:			
Due within one year	118,526	848,235	966,761
Due in more than one year	373,271	14,669,552	15,042,823
Total liabilities	<u>820,221</u>	<u>17,543,529</u>	<u>18,363,750</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	<u>354,523</u>		<u>354,523</u>
Net position:			
Net investment in capital assets	19,406,576	17,608,205	37,014,781
Restricted for:			
Capital projects	3,428,395		3,428,395
Debt service	29,008		29,008
Transportation projects	1,328,278		1,328,278
Community improvements	2,136,218		2,136,218
Other purposes	42,653		42,653
Unrestricted	5,657,072	8,097,320	13,754,392
Total net position	<u>\$32,028,200</u>	<u>\$25,705,525</u>	<u>\$57,733,725</u>

See accompanying notes to the basic financial statements.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$981,835	\$156,122		
Security of persons and property	3,327,821	438,551		\$29,829
Public health and welfare	64,094	9,116		
Transportation	1,989,235	44,449	\$367,466	103,390
Community environment	73,370	3,763	46,158	
Leisure time activity	363,381	96,862		3,500
Interest and fiscal charges	5,369			
Total governmental activities	6,805,105	748,863	413,624	136,719
Business-type activities:				
Water	1,341,278	1,247,711		
Sewer	2,025,063	1,987,399		
Electric	19,938,855	17,680,863		
Refuse	828,853	850,974		
Total business-type activities	24,134,049	21,766,947		
Total primary government	\$30,939,154	\$22,515,810	\$413,624	\$136,719

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

Special item - AMP-Ohio stranded cost credit
 Transfers

Total general revenues, special items and transfers

Change in net position

Net position at beginning of year

Net position at end of year

See accompanying notes to the basic financial statements.

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

Governmental Activities	Business-type Activities	Total
(\$825,713)		(\$825,713)
(2,859,441)		(2,859,441)
(54,978)		(54,978)
(1,473,930)		(1,473,930)
(23,449)		(23,449)
(263,019)		(263,019)
(5,369)		(5,369)
<u>(5,505,899)</u>		<u>(5,505,899)</u>
	(\$93,567)	(93,567)
	(37,664)	(37,664)
	(2,257,992)	(2,257,992)
	22,121	22,121
	<u>(2,367,102)</u>	<u>(2,367,102)</u>
<u>(5,505,899)</u>	<u>(2,367,102)</u>	<u>(7,873,001)</u>
1,123,746		1,123,746
95,792		95,792
2,259,949		2,259,949
455,828		455,828
1,619,687		1,619,687
322,069	7,165	329,234
53,946	19,532	73,478
(78,245)		(78,245)
206,778	278,432	485,210
<u>6,059,550</u>	<u>305,129</u>	<u>6,364,679</u>
	915,535	915,535
<u>(853,270)</u>	<u>853,270</u>	
<u>5,206,280</u>	<u>2,073,934</u>	<u>7,280,214</u>
(299,619)	(293,168)	(592,787)
<u>32,327,819</u>	<u>25,998,693</u>	<u>58,326,512</u>
<u>\$32,028,200</u>	<u>\$25,705,525</u>	<u>\$57,733,725</u>

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**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Voted Income Tax	Non-major Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	\$2,603,626	\$2,999,674	\$4,818,979	\$10,422,279
Cash in segregated accounts	3,476			3,476
Receivables:				
Income taxes	346,304	240,465	134,698	721,467
Real and other taxes	292,497		77,392	369,889
Accounts	50,450	5,225		55,675
Special assessments			240,298	240,298
Loans			1,368,408	1,368,408
Notes			131,108	131,108
Accrued interest	11,478			11,478
Due from other funds	70,830			70,830
Due from other governments	106,329	29,829	184,089	320,247
Prepayments	50,884		8,041	58,925
Materials and supplies inventory	35,446		15,637	51,083
Restricted assets:				
Cash with fiscal agent			6,452	6,452
Total assets	<u>3,571,320</u>	<u>3,275,193</u>	<u>6,985,102</u>	<u>13,831,615</u>
Liabilities:				
Accounts payable	33,145	54,918	748	88,811
Accrued wages and benefits payable	65,446	2,275	16,390	84,111
Interfund loans payable			148,350	148,350
Due to other governments	58,519	3,918	56,957	119,394
Judgments payable	3,000			3,000
Total liabilities	<u>160,110</u>	<u>61,111</u>	<u>222,445</u>	<u>443,666</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year	280,209		74,314	354,523
Income tax revenue not available	188,170	130,661	73,191	392,022
Delinquent property tax revenue not available	4,035		890	4,925
Accrued interest not available	10,728			10,728
Special assessments revenue not available			240,298	240,298
Intergovernmental revenue not available	88,386	29,829	153,311	271,526
Licenses and permits revenue not available	6,163			6,163
Other revenue not available	3,263	5,225		8,488
Total deferred inflows of resources	<u>580,954</u>	<u>165,715</u>	<u>542,004</u>	<u>1,288,673</u>
Fund balances:				
Nonspendable	88,982		23,678	112,660
Restricted		3,048,367	3,543,461	6,591,828
Committed			2,780,559	2,780,559
Assigned	1,949,093			1,949,093
Unassigned (deficit)	792,181		(127,045)	665,136
Total fund balances	<u>2,830,256</u>	<u>3,048,367</u>	<u>6,220,653</u>	<u>12,099,276</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$3,571,320</u>	<u>\$3,275,193</u>	<u>\$6,985,102</u>	<u>\$13,831,615</u>

See accompanying notes to the basic financial statements.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Total governmental fund balances	\$12,099,276
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Amounts reported for governmental activities on the statement of net position are different because:

Capital assets used in governmental activities (excluding internal service fund capital assets) are not financial resources and therefore are not reported in the funds.	19,418,076
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.

Income taxes receivable	\$392,022	
Real and other taxes receivable	4,925	
Accounts receivable	14,651	
Special assessments receivable	240,298	
Accrued interest receivable	10,728	
Due from other governments	271,526	
Total		934,150

The internal service fund is used by management to charge the costs of the maintenance garage to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position. The net position of the internal service fund, including an internal balance of \$5,765, is:

68,558

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:

Bond anticipation notes payable	(37,000)	
Compensated absences payable	(454,797)	
Accrued interest payable	(63)	
Total		(491,860)

Net position of governmental activities	\$32,028,200
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See accompanying notes to the basic financial statements.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Voted Income Tax</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$2,246,278	\$1,356,954	\$703,750	\$4,306,982
Real and other taxes	1,130,426		97,274	1,227,700
Charges for services	484,287		75,886	560,173
Licenses and permits	94,318			94,318
Fines and forfeitures	16,702		2,145	18,847
Intergovernmental	312,672		484,018	796,690
Special assessments			74,617	74,617
Investment income	53,059	583	47,389	101,031
Decrease in fair value of investments	(78,245)			(78,245)
Rental income	36,541			36,541
Contributions and donations	2,960		3,590	6,550
Other	141,299	22,949	31,082	195,330
Total revenues	<u>4,440,297</u>	<u>1,380,486</u>	<u>1,519,751</u>	<u>7,340,534</u>
Expenditures:				
Current:				
General government	980,927			980,927
Security of persons and property	2,713,571		369,654	3,083,225
Public health and welfare	57,279			57,279
Transportation			913,571	913,571
Community environment	23,646		107	23,753
Leisure time activity	160,182		75,913	236,095
Capital outlay		1,648,645	255,293	1,903,938
Debt service:				
Principal retirement			30,000	30,000
Interest and fiscal charges			5,527	5,527
Total expenditures	<u>3,935,605</u>	<u>1,648,645</u>	<u>1,650,065</u>	<u>7,234,315</u>
Excess (deficiency) of revenues over (under) expenditures	<u>504,692</u>	<u>(268,159)</u>	<u>(130,314)</u>	<u>106,219</u>
Other financing sources (uses):				
Note issuance			37,000	37,000
Transfers in	319		373,783	374,102
Transfers out	(1,215,225)		(12,147)	(1,227,372)
Total other financing sources (uses)	<u>(1,214,906)</u>		<u>398,636</u>	<u>(816,270)</u>
Net change in fund balances	(710,214)	(268,159)	268,322	(710,051)
Fund balances at beginning of year	3,532,206	3,316,526	5,955,227	12,803,959
Increase (decrease) in reserve for inventory	8,264		(2,896)	5,368
Fund balances at end of year	<u>\$2,830,256</u>	<u>\$3,048,367</u>	<u>\$6,220,653</u>	<u>\$12,099,276</u>

See accompanying notes to the basic financial statements.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net change in fund balances - total governmental funds (\$710,051)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. Both amounts are exclusive of internal service fund activity.

Capital asset additions	\$1,934,207	
Current year depreciation	(1,487,627)	
Total	446,580	446,580

Governmental funds report expenditures for inventory when purchased. However in the statement of activities, they are reported as an expense when consumed. 5,368

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

Income taxes	28,482	
Real and other taxes	(8,162)	
Licenses and permits	(5,465)	
Special assessments	(30,168)	
Intergovernmental	25,965	
Investment income	(918)	
Other	8,488	
Total	18,222	18,222

Proceeds of bond anticipation notes are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as an other financing source as they increase the liabilities on the statement of net position. (37,000)

In the statement of activities, interest is accrued on outstanding long-term liabilities, whereas in governmental funds, an interest expenditure is reported when due. 158

Principal payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. 30,000

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. (46,328)

The internal service fund used by management to charge the costs of the maintenance garage to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including internal balance activity of \$18,115, is allocated among the governmental activities. (6,568)

Change in net position of governmental activities (\$299,619)

See accompanying notes to the basic financial statements.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$1,851,107	\$1,851,107	\$2,242,877	\$391,770
Real and other taxes	919,040	919,040	1,113,546	194,506
Charges for services	401,159	401,159	486,061	84,902
Licenses, permits and fees	77,522	77,522	93,929	16,407
Fines and forfeitures	13,163	13,163	15,949	2,786
Intergovernmental	263,675	263,675	319,479	55,804
Investment income	42,852	42,852	51,921	9,069
Rental income	30,158	30,158	36,541	6,383
Contributions and donations	2,443	2,443	2,960	517
Other	118,086	118,086	143,078	24,992
Total revenues	<u>3,719,205</u>	<u>3,719,205</u>	<u>4,506,341</u>	<u>787,136</u>
Expenditures:				
Current:				
General government	1,349,790	1,416,530	1,031,693	384,837
Security of persons and property	2,917,098	3,061,336	2,749,929	311,407
Public health and welfare	105,265	110,470	95,443	15,027
Community environment	31,985	33,567	31,479	2,088
Leisure time activity	201,560	211,526	176,994	34,532
Total expenditures	<u>4,605,698</u>	<u>4,833,429</u>	<u>4,085,538</u>	<u>747,891</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(886,493)</u>	<u>(1,114,224)</u>	<u>420,803</u>	<u>1,535,027</u>
Other financing sources (uses):				
Transfers in	263	263	319	56
Transfers out	(1,199,760)	(1,259,083)	(1,215,225)	43,858
Total other financing sources (uses)	<u>(1,199,497)</u>	<u>(1,258,820)</u>	<u>(1,214,906)</u>	<u>43,914</u>
Net change in fund balance	(2,085,990)	(2,373,044)	(794,103)	1,578,941
Fund balance at beginning of year	3,119,199	3,119,199	3,119,199	
Prior year encumbrances appropriated	172,928	172,928	172,928	
Fund balance at end of year	<u>\$1,206,137</u>	<u>\$919,083</u>	<u>\$2,498,024</u>	<u>\$1,578,941</u>

See accompanying notes to the basic financial statements.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013**

	<u>Business-type Activities - Enterprise Funds</u>					Governmental Activities - Internal Service Fund
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Refuse</u>	<u>Total</u>	
Assets:						
Current assets:						
Equity in pooled cash and investments	\$762,802	\$1,803,162	\$5,996,926	\$2,285,493	\$10,848,383	\$47,355
Receivables:						
Real and other taxes			73,305		73,305	
Accounts	134,165	208,791	1,776,586	77,771	2,197,313	
Special assessments	411	974		2,087	3,472	
Interfund loans			148,350		148,350	
Due from other governments				5,011	5,011	
Prepayments	12,092	11,564	66,987	6,031	96,674	
Materials and supplies inventory	183,161	59,549	194,147	11,324	448,181	34,513
Total current assets	<u>1,092,631</u>	<u>2,084,040</u>	<u>8,256,301</u>	<u>2,387,717</u>	<u>13,820,689</u>	<u>81,868</u>
Non-current assets:						
Restricted assets:						
Refundable cash deposits			352,557		352,557	
Investment in joint venture			679,739		679,739	
Capital assets:						
Non-depreciable capital assets	270,462	171,940	513,813	303,695	1,259,910	
Depreciable capital assets, net	4,240,196	15,606,207	6,146,757	1,208,064	27,201,224	25,500
Total capital assets, net	<u>4,510,658</u>	<u>15,778,147</u>	<u>6,660,570</u>	<u>1,511,759</u>	<u>28,461,134</u>	<u>25,500</u>
Total non-current assets	<u>4,510,658</u>	<u>15,778,147</u>	<u>7,692,866</u>	<u>1,511,759</u>	<u>29,493,430</u>	<u>25,500</u>
Total assets	<u>5,603,289</u>	<u>17,862,187</u>	<u>15,949,167</u>	<u>3,899,476</u>	<u>43,314,119</u>	<u>107,368</u>
Liabilities:						
Current liabilities:						
Accounts payable	6,592	5,983	1,487,957	11,987	1,512,519	29,767
Accrued wages and benefits	15,163	11,505	30,550	6,216	63,434	1,405
Compensated absences payable	15,995	13,936	20,230	7,968	58,129	
Due to other funds			70,830		70,830	
Due to other governments	18,003	33,801	36,195	9,233	97,232	1,873
Current portion of general obligation bonds payable			109,054		109,054	
Current portion of OWDA loans payable		466,052			466,052	
Current portion of OPWC loans payable		15,000			15,000	
Current portion of AMP-Ohio stranded cost payable			200,000		200,000	
Payable from restricted assets:						
Refundable cash deposits			352,557		352,557	
Total current liabilities	<u>55,753</u>	<u>546,277</u>	<u>2,307,373</u>	<u>35,404</u>	<u>2,944,807</u>	<u>33,045</u>
Long-term liabilities:						
Compensated absences payable	83,939	67,300	84,177	29,405	264,821	
General obligation bonds payable			779,170		779,170	
OWDA loans payable		9,221,153			9,221,153	
OPWC loans payable		262,500			262,500	
AMP-Ohio stranded cost payable			1,335,841		1,335,841	
Landfill closure/postclosure liability				2,806,067	2,806,067	
Total long-term liabilities	<u>83,939</u>	<u>9,550,953</u>	<u>2,199,188</u>	<u>2,835,472</u>	<u>14,669,552</u>	
Total liabilities	<u>139,692</u>	<u>10,097,230</u>	<u>4,506,561</u>	<u>2,870,876</u>	<u>17,614,359</u>	<u>33,045</u>
Net position:						
Net investment in capital assets	4,510,658	5,813,442	5,772,346	1,511,759	17,608,205	25,500
Unrestricted (deficit)	952,939	1,951,515	5,670,260	(483,159)	8,091,555	48,823
Total net position	<u>\$5,463,597</u>	<u>\$7,764,957</u>	<u>\$11,442,606</u>	<u>\$1,028,600</u>	<u>25,699,760</u>	<u>\$74,323</u>
Adjustment to reflect the consolidation of the internal service fund's activities related to enterprise funds.					5,765	
Net position of business-type activities					<u>\$25,705,525</u>	

See accompanying notes to the basic financial statements.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Business-type Activities - Enterprise Funds</u>					Governmental Activities - Internal Service Fund
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Refuse</u>	<u>Total</u>	
Operating revenues:						
Charges for services	\$1,246,441	\$1,977,899	\$17,680,863	\$850,974	\$21,756,177	\$456,775
Tap-in fees	1,270	9,500			10,770	
Rental income	2,030		19,830	14,454	36,314	
Other	51,383	23,660	133,386	33,689	242,118	1,464
Total operating revenues	<u>1,301,124</u>	<u>2,011,059</u>	<u>17,834,079</u>	<u>899,117</u>	<u>22,045,379</u>	<u>458,239</u>
Operating expenses:						
Personal services	829,556	573,340	1,190,242	424,420	3,017,558	61,259
Contractual services	104,577	220,048	1,230,818	280,009	1,835,452	1,089
Materials and supplies	157,430	135,612	16,702,299	18,255	17,013,596	381,344
Depreciation	252,531	761,922	649,940	113,733	1,778,126	3,000
Other	220	373	12,830	150	13,573	
Total operating expenses	<u>1,344,314</u>	<u>1,691,295</u>	<u>19,786,129</u>	<u>836,567</u>	<u>23,658,305</u>	<u>446,692</u>
Operating income (loss)	<u>(43,190)</u>	<u>319,764</u>	<u>(1,952,050)</u>	<u>62,550</u>	<u>(1,612,926)</u>	<u>11,547</u>
Non-operating revenues (expenses):						
Interest and fiscal charges		(336,881)	(48,435)		(385,316)	
Interest income	1,600	3,891	13,228	813	19,532	
Decrease in investment in joint venture			(101,378)		(101,378)	
Other local tax revenue			7,165		7,165	
Excise tax expense			(7,165)		(7,165)	
Total non-operating revenues (expenses)	<u>1,600</u>	<u>(332,990)</u>	<u>(136,585)</u>	<u>813</u>	<u>(467,162)</u>	
Net income (loss) before special items and transfers	<u>(41,590)</u>	<u>(13,226)</u>	<u>(2,088,635)</u>	<u>63,363</u>	<u>(2,080,088)</u>	<u>11,547</u>
Special item - AMP-Ohio stranded cost credit Transfers in	<u>551</u>	<u>390</u>	<u>915,535</u>		<u>915,535</u>	
			<u>852,329</u>		<u>853,270</u>	
Change in net position	<u>(41,039)</u>	<u>(12,836)</u>	<u>(320,771)</u>	<u>63,363</u>	<u>(311,283)</u>	<u>11,547</u>
Net position at beginning of year	<u>5,504,636</u>	<u>7,777,793</u>	<u>11,763,377</u>	<u>965,237</u>		<u>62,776</u>
Net position at end of year	<u>\$5,463,597</u>	<u>\$7,764,957</u>	<u>\$11,442,606</u>	<u>\$1,028,600</u>		<u>\$74,323</u>
Adjustment to reflect the consolidation of the internal service fund's activities related to enterprise funds.					<u>18,115</u>	
Change in net position of business-type activities.					<u>(\$293,168)</u>	

See accompanying notes to the basic financial statements.

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**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Business-type Activities - Enterprise Funds</u>					Governmental Activities - Internal Service Fund
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Refuse</u>	<u>Total</u>	
Cash flows from operating activities:						
Cash received from charges for services	\$1,206,840	\$1,945,760	\$17,366,547	\$845,697	\$21,364,844	\$456,775
Cash received from tap-in fees	1,270	9,500			10,770	
Cash received from rental charges	2,030		19,830	13,604	35,464	
Cash received from other operations	52,199	24,476	207,697	34,807	319,179	1,464
Cash payments for personal services	(821,854)	(570,937)	(1,253,861)	(417,143)	(3,063,795)	(78,024)
Cash payments for contract services	(116,882)	(196,708)	(1,466,904)	(367,394)	(2,147,888)	(1,089)
Cash payments for materials and supplies	(182,229)	(144,461)	(16,287,468)	(19,501)	(16,633,659)	(372,679)
Cash payments for other operations	(220)	(373)	(101,361)	(150)	(102,104)	
Net cash provided by (used in) operating activities	<u>141,154</u>	<u>1,067,257</u>	<u>(1,515,520)</u>	<u>89,920</u>	<u>(217,189)</u>	<u>6,447</u>
Cash flows from noncapital financing activities:						
Cash received from transfers in	551	390	852,329		853,270	
Cash received from the repayment of interfund loans			58,440		58,440	
Cash payments for new interfund loans			(8,850)		(8,850)	
Cash received from other local taxes			7,165		7,165	
Cash payments for excise tax expense			(7,165)		(7,165)	
Net cash provided by non-capital financing activities	<u>551</u>	<u>390</u>	<u>901,919</u>		<u>902,860</u>	
Cash flows from capital and related financing activities:						
Cash payments for the acquisition of capital assets	(292,193)	(169,659)	(579,828)	(25,460)	(1,067,140)	
Cash payments for principal retirement		(465,779)	(103,725)		(569,504)	
Cash payments for interest and fiscal charges		(336,881)	(48,435)		(385,316)	
Net cash used in capital and related financing activities	<u>(292,193)</u>	<u>(972,319)</u>	<u>(731,988)</u>	<u>(25,460)</u>	<u>(2,021,960)</u>	
Cash flows from investing activities:						
Cash received from interest earned	1,600	3,891	13,228	813	19,532	
Net cash provided by investing activities	<u>1,600</u>	<u>3,891</u>	<u>13,228</u>	<u>813</u>	<u>19,532</u>	
Net increase (decrease) in cash and investments	(148,888)	99,219	(1,332,361)	65,273	(1,316,757)	6,447
Cash and investments at beginning of year	911,690	1,703,943	7,681,844	2,220,220	12,517,697	40,908
Cash and investments at end of year	<u>762,802</u>	<u>1,803,162</u>	<u>6,349,483</u>	<u>2,285,493</u>	<u>11,200,940</u>	<u>47,355</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	(43,190)	319,764	(1,952,050)	62,550	(1,612,926)	11,547
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	252,531	761,922	649,940	113,733	1,778,126	3,000

(Continued)

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Business-type Activities - Enterprise Funds</u>				Governmental Activities - Internal Service Fund	
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Refuse</u>		<u>Total</u>
Changes in assets and liabilities:						
(Increase) in accounts receivable	(38,704)	(31,206)	(324,091)	(4,040)	(398,041)	
(Increase) in special assessments receivable	(81)	(117)		(2,087)	(2,285)	
Decrease in due from other governments				1,118	1,118	
(Increase) in real and other taxes receivable			(8,830)		(8,830)	
(Increase) decrease in materials and supplies inventory	(25,788)	(11,339)	82,219	(1,246)	43,846	(7,646)
(Increase) in prepayments	(693)	(693)	(2,233)	(715)	(4,334)	
Increase in accounts payable	2,804	5,983	304,520	4,381	317,688	16,311
Increase in accrued wages and benefits	3,625	1,806	10,601	1,027	17,059	207
Increase (decrease) in compensated absences payable	3,055	2,336	(74,251)	2,557	(66,303)	(16,976)
Increase (decrease) in due to other governments	(12,405)	18,801	(2,355)	3,693	7,734	4
Increase in due to other funds			8,627		8,627	
(Decrease) in refundable cash deposits liability			(7,617)		(7,617)	
(Decrease) in landfill closure/postclosure liability				(91,051)	(91,051)	
(Decrease) in AMP-Ohio stranded cost payable			(200,000)		(200,000)	
Net cash provided by (used in) operating activities	<u>\$141,154</u>	<u>\$1,067,257</u>	<u>(\$1,515,520)</u>	<u>\$89,920</u>	<u>(\$217,189)</u>	<u>\$6,447</u>

Non-Cash Transactions

During 2012, the water fund purchased capital assets on account in the amount of \$43,348.

During 2012, the sewer fund purchased capital assets on account in the amount of \$63,706.

During 2012, the electric fund purchased capital assets on account in the amount of \$165,956.

See accompanying notes to the basic financial statements.

CITY OF ST. MARYS
AUGLAIZE COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2013

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments	\$145,201
Receivables:	
Income taxes	1,166,817
Total assets	<u>1,312,018</u>
Liabilities:	
Due to other governments	1,182,857
Payroll withholdings	44,629
Undistributed assets	84,532
Total liabilities	<u>\$1,312,018</u>

See accompanying notes to the basic financial statements.

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**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. DESCRIPTION OF THE CITY

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

The City operates under a mayor-council form of government. Legislative power is vested in a seven member City Council and a City Council President, all of which are elected to two-year terms. The Mayor is elected to a four-year term and is the chief executive officer of the City. Three City Council members are elected at-large and four are elected from wards. Other elected officials consist of the Auditor, Treasurer and Law Director. These elected officials are all elected for four-year terms.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City.

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Joint Venture With Equity Interest

Ohio Municipal Electric Generation Agency Joint Venture

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's system, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the system. Under the terms of the Agreement each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2013, the City of St. Marys has met their debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081 MW is the participants' entitlement and 4.569 MW are held in reserve. On dissolution of OMEGA JV2, the net position will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of twenty-year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP-Ohio redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP-Ohio's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP-Ohio credit facility. As of December 31, 2013, the outstanding debt was \$15,769,323. The City's net obligation for this amount at December 31, 2013 was \$599,234. 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 \$679,739 at December 31, 2013. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.ohioauditor.gov.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2013 are:

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

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

Year Ended December 31,	Principal	Interest	Total Debt Service
2014	\$109,054	\$43,249	\$152,303
2015	114,763	37,524	152,287
2016	120,853	31,499	152,352
2017	126,563	25,819	152,382
2018	132,653	19,807	152,460
2019-2020	284,338	20,413	304,751
Total	<u>888,224</u>	<u>\$178,311</u>	<u>\$1,066,535</u>
Less amount held in reserve	(288,990)		
Net Obligation	<u>\$599,234</u>		

2. Insurance Purchasing Pool

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

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

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

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

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

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

1. Governmental Funds

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

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

Voted income tax fund – The voted income tax fund accounts for and reports financial resources resulting from the City's additional 0.5% income tax levy that are intended for various capital improvements.

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

2. Proprietary Funds

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

3. 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.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal Service Fund – Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on the operations of the City's maintenance garage.

4. Fiduciary Funds

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

D. Measurement Focus

1. Government-Wide Financial Statements

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

2. Fund Financial Statements

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

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

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Accounting

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

1. Revenues – Exchange and Non-exchange Transactions

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

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

On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

2. Deferred Inflows of Resources and Deferred Outflows of Resources

A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance 2014 operations, have been recorded as deferred inflows of resources on both the government-wide and fund financial statements. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2013, are recorded as deferred inflows of resources on the governmental fund financial statements.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

F. Budgetary Process

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

1. Tax Budget

A budget of estimated revenues and expenditures for all funds is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year. The budget includes proposed expenditures and the means of financing for all funds. The purpose of this budget document is to reflect the need for existing or increased tax rates. The Auglaize County Auditor waived this requirement for 2013.

2. Estimated Resources

The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. On or before December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include the actual unencumbered fund balances from the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines that revenue to be collected will be greater than or less than prior revenue estimates, and the County Budget Commission finds the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the final amended official certificate of estimated resources issued during 2013.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Appropriations

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

4. Budgeted Level of Expenditures

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

5. Lapsing of Appropriations

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

G. Cash and Investments

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

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

The City has a segregated bank account for monies held separate from the City's central bank account. This depository account is presented on the basic financial statements as "cash in segregated accounts" since it is not required to be deposited into the City treasury. The City maintains a segregated depository account for ambulance monies.

During 2013, investments were limited to Federal National Mortgage Association (FNMA) securities, Federal Home Loan Bank (FHLB) securities, U.S. Treasury money market mutual funds, negotiable certificates of deposit and nonnegotiable certificates of deposit. Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market prices.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2013 was \$53,059, which includes \$37,369 assigned from other City funds.

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

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

H. Loans Receivable

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

I. Notes Receivable

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

J. Prepayments

Payments made to vendors for services that will benefit the City beyond December 31, 2013 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it is consumed.

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

K. Inventories of Materials and Supplies

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

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

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Capital Assets

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

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

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

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

M. Compensated Absences

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

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

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

N. Accrued Liabilities and Long-Term Obligations

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

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

O. Interfund Balances

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

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

P. Interfund Activity

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

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

Q. Fund Balance

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

R. Restricted Assets

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

S. Estimates

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Capital Contributions

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

U. Net Position

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

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

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. No extraordinary items occurred during 2013.

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. During 2013, AMP-Ohio determined that the City was eligible for a \$915,535 credit for costs incurred from the American Municipal Power Generating Station Project (the "AMPGS Project") that were deemed to have future benefit to the City. This credit effectively reduced the City's liability balance related to the AMPGS Project (See Note 13), resulting in a special item reported in the City's electric fund.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For 2013, the City has implemented GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34" and GASB Statement No. 66, "Technical Corrections-2012 – an Amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the City.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

GASB Statement No. 66 improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements; GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements". The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the City.

B. Deficit Fund Balances

Fund balances at December 31, 2013 included the following individual fund deficit:

<u>Non-major governmental fund</u>	
Special assessment bond retirement	\$127,045

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

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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;
 - A. 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,
 - B. Obligations of the City.

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

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Restricted cash with fiscal agent: At year end, the City had \$6,452 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, 2013. This amount is not included in "investments" below.

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

Cash in segregated accounts: At year end, the City had \$3,476 on deposit with a financial institution for monies related to the City's ambulance services. This amount is included in "deposits with financial institutions" below.

A. Deposits with Financial Institutions

At December 31, 2013, the carrying amount of all City deposits was \$14,228,273. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2013, \$9,408,035 of the City's bank balance of \$14,662,190 was exposed to custodial credit risk as discussed below, while \$5,254,155 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

B. Investments

As of December 31, 2013, the City had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Negotiable CD's	\$797,086		\$611,562		\$185,524	
FNMA	2,846,650					\$2,846,650
FHLB	3,936,482					3,936,482
U.S. Treasury money market mutual funds	10,760	\$10,760				
Total	\$7,590,978	\$10,760	\$611,562	\$0	\$185,524	\$6,783,132

At December 31, 2013, the weighted average maturity of investments is 3.72 years.

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

4. DEPOSITS AND INVESTMENTS – (Continued)

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The FNMA and FHLB 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 City Auditor or qualified trustee.

Concentration of Credit Risk: The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Negotiable CD's	\$797,086	10.50
FNMA	2,846,650	37.50
FHLB	3,936,482	51.86
U.S. Treasury money market mutual funds	10,760	0.14
Total	<u>\$7,590,978</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note disclosure to cash and investments as reported on the statement of net position as of December 31, 2013:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$14,228,273
Investments	7,590,978
Restricted cash with fiscal agent	6,452
Total	<u>\$21,825,703</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$10,479,562
Business-type activities	11,200,940
Agency funds	145,201
Total	<u>\$21,825,703</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

5. INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended December 31, 2013, consisted of the following, as reported on the fund financial statements:

Transfers out of general fund and into:	
Electric fund	\$852,263
Non-major governmental funds	362,962
Transfers out of non-major governmental funds and into:	
General fund	319
Water fund	551
Sewer fund	390
Electric fund	66
Non-major governmental funds	<u>10,821</u>
Total	<u>\$1,227,372</u>

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

Transfers between governmental funds are eliminated for reporting on the statement of activities. Transfers between governmental activities and business-type activities are reported as transfers on the statement of activities.

All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Interfund loans receivable/payable consisted of the following, as reported in the fund financial statements for the year ended December 31, 2013:

Interfund loans receivable in the electric fund from:	
Non-major governmental fund	<u>\$148,350</u>

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

- C.** Due to/from other funds consisted of the following, as reported in the fund financial statements for the year ended December 31, 2013:

Due to general fund from:	
Electric fund	<u>\$70,830</u>

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

6. PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2013 public utility property taxes became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of St. Marys. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2013 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2013 operations and the collection of delinquent taxes has been offset by a deferred inflow of resources since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is considered a deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2013 was \$3.32 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2013 property tax receipts were based are as follows:

Real property	
Residential/agricultural	\$91,448,190
Commercial/industrial	35,595,360
Public utility	
Real	12,570
Personal	336,400
Total assessed value	<u>\$127,392,520</u>

7. LOCAL INCOME TAX

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

7. LOCAL INCOME TAX (Continued)

The City, by ordinance, allocates 1 percent of the income tax revenues to the general fund (0.72%), the street construction and maintenance fund (a nonmajor governmental fund) (0.18%), and the capital improvements fund (a nonmajor governmental fund) (0.10%). The other 0.5 percent is allocated to the voted income tax fund. For 2013, in the fund financial statements, income tax revenue credited to the general fund, voted income tax fund, capital improvements fund (a nonmajor governmental fund), and street construction and maintenance fund (a nonmajor governmental fund), totaled \$2,246,278, \$1,356,954, \$251,340, and \$452,410, respectively.

8. LOANS RECEIVABLE

Loans receivable represent low interest loans for development projects and home improvements granted to eligible City businesses and residents under the Community Development Block Grant (CDBG) program, a federal grant program which is accounted for in the CDBG fund (a nonmajor governmental fund). The loans have annual interest rates ranging from 2.00% - 4.50% and are repaid over periods ranging from five to thirty years.

A summary of loans receivable activity during 2013 follows:

<u>Loans receivable:</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/13</u>
Business loans	\$1,330,156	\$239,570	(\$201,318)	\$1,368,408

9. NOTES RECEIVABLE

Notes receivable represent amounts issued to the Community Improvement Corporation of St. Marys (CIC) for the improvement of storefronts within the City that are being leased to outside entities, specifically the St. Marys City School District Board of Education. The CIC is charged with collecting lease payments from the lessee in order to repay the note principal to the City. The note was issued on October 1, 2010 for \$150,000, has an annual interest rate of 1.00%, and is to be repaid on a quarterly basis over a twenty year period. At December 31, 2013, the amount owed to the City was \$131,108.

A summary of notes receivable activity during 2013 follows:

<u>Notes receivable:</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/13</u>
Notes	\$136,312	\$0	(\$5,204)	\$131,108

10. RECEIVABLES

Receivables at December 31, 2013 consisted of taxes, accounts (billings for user charged services), special assessments, loans, notes, accrued interest and intergovernmental receivables arising from grants, entitlements, and shared revenues. All intergovernmental receivables have been reported as "due from other governments" on the basic financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2013.

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

10. RECEIVABLES (Continued)

<u>Receivables:</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Income taxes	\$721,467	
Real and other taxes	369,889	\$73,305
Accounts	55,675	2,197,313
Special assessments	240,298	3,472
Loans	1,368,408	
Notes	131,108	
Accrued interest	11,478	
Due from other governments	320,247	5,011
Total	\$3,218,570	\$2,279,101

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

11. CAPITAL ASSETS

Governmental activities capital asset activity for the year ended December 31, 2013 was as follows:

<u>Governmental activities:</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/13</u>
Capital assets, not being depreciated:				
Land	\$2,089,694	\$57,000		\$2,146,694
Total capital assets, not being depreciated	2,089,694	57,000		2,146,694
Capital assets, being depreciated:				
Land improvements	4,620,372			4,620,372
Buildings and improvements	1,677,277	47,168		1,724,445
Equipment and furniture	1,198,621	85,517		1,284,138
Vehicles	3,903,900	234,692	(\$31,504)	4,107,088
Infrastructure	23,239,897	1,509,830		24,749,727
Total capital assets, being depreciated	34,640,067	1,877,207	(31,504)	36,485,770
Less: accumulated depreciation:				
Land improvements	(1,496,483)	(177,221)		(1,673,704)
Buildings and improvements	(1,015,339)	(45,974)		(1,061,313)
Equipment and furniture	(771,076)	(64,945)		(836,021)
Vehicles	(2,716,714)	(229,022)	31,504	(2,914,232)
Infrastructure	(11,730,153)	(973,465)		(12,703,618)
Total accumulated depreciation	(17,729,765)	(1,490,627)	31,504	(19,188,888)
Total capital assets, net	\$18,999,996	\$443,580	\$0	\$19,443,576

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

11. CAPITAL ASSETS (Continued)

<u>Governmental activities:</u>	<u>Depreciation Expense</u>
General government	\$30,637
Security of persons and property	206,326
Public health and welfare	6,815
Transportation	1,067,485
Community environment	49,617
Leisure time activities	126,747
Capital assets held by the internal service fund are charged to various functions based upon their usage of the capital assets	3,000
Total depreciation expense	<u>\$1,490,627</u>

Business-type activities capital asset activity for the year ended December 31, 2013 was as follows:

<u>Business-type activities:</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/13</u>
Capital assets, not being depreciated:				
Land and easements	\$1,221,910			\$1,221,910
Construction in progress	2,120,018	\$167,195	(\$2,249,213)	38,000
Total capital assets, not being depreciated	<u>3,341,928</u>	<u>167,195</u>	<u>(2,249,213)</u>	<u>1,259,910</u>
Capital assets, being depreciated:				
Land improvements	5,603,827	2,249,213		7,853,040
Buildings and improvements	16,705,804	44,748		16,750,552
Equipment and furniture	11,323,734	11,400		11,335,134
Vehicles	3,085,074	223,349		3,308,423
Infrastructure	20,131,435	347,438		20,478,873
Total capital assets, being depreciated	<u>56,849,874</u>	<u>2,876,148</u>		<u>59,726,022</u>
Less: accumulated depreciation:				
Land improvements	(3,425,117)	(267,746)		(3,692,863)
Buildings and improvements	(5,528,133)	(581,585)		(6,109,718)
Equipment and furniture	(9,689,848)	(265,970)		(9,955,818)
Vehicles	(2,375,092)	(134,087)		(2,509,179)
Infrastructure	(9,728,482)	(528,738)		(10,257,220)
Total accumulated depreciation	<u>(30,746,672)</u>	<u>(1,778,126)</u>		<u>(32,524,798)</u>
Total capital assets, net	<u>\$29,445,130</u>	<u>\$1,265,217</u>	<u>(\$2,249,213)</u>	<u>\$28,461,134</u>

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

<u>Business-type activities:</u>	<u>Depreciation Expense</u>
Water fund	\$252,531
Sewer fund	761,922
Electric fund	649,940
Refuse fund	113,733
Total depreciation expense	<u>\$1,778,126</u>

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

12. COMPENSATED ABSENCES

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

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

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

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

13. LONG-TERM OBLIGATIONS

Governmental activities changes in long-term obligations for the year ended December 31, 2013 were as follows:

Governmental activities:	Balance 12/31/12	Additions	Retirements	Balance 12/31/13	Amount Due Within One Year
Long-term obligations:					
Bond anticipation notes payable	\$30,000	\$37,000	(\$30,000)	\$37,000	\$37,000
Compensated absences payable	425,445	121,340	(91,988)	454,797	81,526
Total long-term obligations	\$455,445	\$158,340	(\$121,988)	\$491,797	\$118,526

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

Bond Anticipation Notes Payable – On July 5, 2012, the City entered into bond anticipation notes for \$30,000 to finance the 2012 street program. The notes carried an interest rate of 1.50% and matured on July 5, 2013. On May 16, 2013, the City entered into bond anticipation notes for \$37,000 to finance the 2013 street program. The notes carry an interest rate of 1.39% and mature on May 16, 2014. The bond anticipation notes are backed by the full faith and credit of the City and have a maturity of one year. In accordance with GAAP, the City's bond anticipation notes are reported as long-term obligations as the City has consummated refinancing on a long-term basis prior to the issuance of the financial statements (See Note 24).

Business-type activities changes in long-term obligations for the year ended December 31, 2013 were as follows:

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

<u>Business-type activities</u>	<u>Interest Rate</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/13</u>	<u>Amount Due Within One Year</u>
General obligation bonds:						
OMEGA JV2 electric project	3.81%	\$991,949		(\$103,725)	\$888,224	\$109,054
OWDA loan:						
Wastewater treatment plant	3.36%	10,137,984		(450,779)	9,687,205	466,052
OPWC loan:						
Spring Street sanitary lift rehabilitation	0.00%	292,500		(15,000)	277,500	15,000
Other long-term obligations:						
Compensated absences payable		389,253	\$28,853	(95,156)	322,950	58,129
AMP-Ohio stranded cost payable		2,651,376		(1,115,535)	1,535,841	200,000
Landfill closure/post-closure liability		2,897,118		(91,051)	2,806,067	
Total other long-term obligations		<u>5,937,747</u>	<u>28,853</u>	<u>(1,301,742)</u>	<u>4,664,858</u>	<u>258,129</u>
Total long-term obligations		<u>\$17,360,180</u>	<u>\$28,853</u>	<u>(\$1,871,246)</u>	<u>\$15,517,787</u>	<u>\$848,235</u>

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

See Note 19 for detail of the City's landfill closure/post-closure liability.

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

OWDA Loan – The City has pledged future sewer revenues to repay an Ohio Water Development Authority (OWDA) loan related to the construction of a new wastewater treatment plant. The loan is payable solely from sewer fund revenues and is payable through 2029 at an interest rate of 3.36%. Annual principal and interest payments on the loan are expected to require 72.56% of net revenues and 39.17% of total revenues. The total principal and interest remaining to be paid on the loan is \$12,602,557. Principal and interest paid for the current year was \$787,660, total net revenues were \$1,085,577 and total revenues were \$2,011,059. The loan is supported by the full faith and credit of the City.

OPWC Loan – The City has entered into a debt financing arrangement through the Ohio Public Works Commission (OPWC) to fund a sanitary lift rehabilitation project. The payments due to the OPWC are made from the City's sewer fund. The loan agreement functions similar to a line-of-credit agreement. At December 31, 2013, the City had outstanding OPWC loan borrowings of \$277,500 in the sewer fund. The loan agreement requires semi-annual payments based on the actual amount loaned. The OPWC loan is interest free and is payable through 2032.

**CITY OF ST. MARYS
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

AMP-Ohio Stranded Cost Payable – The City is a member of American Municipal Power (AMP) and was a participant in the American Municipal Power Generating Station Project (the “AMPGS Project”). The City executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project, which was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City’s share of the AMPGS Project was 21,000 kilowatts out of a total 771,281 kilowatts, giving the City a 2.72 percent share. The take-or-pay contracts signed by the City and other AMPGS Project participants obligated these entities to pay any costs incurred for the AMPGS Project.

In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and the participants of the AMPGS Project were obligated to pay the costs already incurred. In prior years, the eventual payment of these costs was not considered probable due to AMP’s pursuit of legal action to void them. However, as a result of a March 31, 2014 legal ruling (See Note 24), in April 2014 the AMP Board of Trustees and the AMPGS Project participants approved the collection of the impaired costs. AMP then provided each AMPGS Project participant with an estimate of its individual liability.

Consistent with prior years, the City continues to record a long-term obligation for its portion of the stranded costs related to the AMPGS Project. The City’s estimated share of the impaired costs at March 31, 2014 was determined to be \$3,642,633. The City received a credit of \$757,070 related to its participation in the AMP Fremont Energy Center Project (the “AFEC Project”), and another credit of \$949,722 related to AMPGS Project costs deemed to have a future benefit for the City (both credits act as a reduction to the City’s long-term obligation for stranded costs, including \$915,535 of the latter credit reported as a 2013 special item in the electric fund). As of December 31, 2013, the City has made total payments of \$400,000 on the AMPGS Project liability, \$200,000 of which occurred during 2013. The net effect of these transactions is a year-end impaired cost estimate of \$1,535,841, which is reported as “AMP-Ohio stranded cost payable” in the City’s electric fund.

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

In 2011 when the AMPGS Project was determined to be abandoned, the City recognized the total estimated costs established at that time as a current operating expense through the contractual services line item. The City thus elected in 2011 to finance this long-term obligation through existing resources in the electric fund, a plan that is still in place as of December 31, 2013.

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

<u>Year Ending December 31,</u>	<u>AMPGS Project Liability Payment</u>
2014	\$ 200,000
2015	200,000
2016	200,000
2017	200,000
2018	200,000
2019-2021	535,841
Total	\$1,535,841

**CITY OF ST. MARYS
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

13. LONG-TERM OBLIGATIONS (Continued)

Future Debt Service Requirements – At December 31, 2013, the principal and interest requirements to retire the business-type activities long-term obligations are as follows:

Year Ended	General Obligation Bonds		
	Principal	Interest	Total
2014	\$109,054	\$43,249	\$152,303
2015	114,763	37,524	152,287
2016	120,853	31,499	152,352
2017	126,563	25,819	152,382
2018	132,653	19,807	152,460
2019 –			
2020	284,338	20,413	304,751
Total	<u>\$888,224</u>	<u>\$178,311</u>	<u>\$1,066,535</u>

Year Ended	OPWC Loan			OWDA Loan		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$15,000		\$15,000	\$466,052	\$321,608	\$787,660
2015	15,000		15,000	481,843	305,817	787,660
2016	15,000		15,000	498,169	289,491	787,660
2017	15,000		15,000	515,048	272,612	787,660
2018	15,000		15,000	532,499	255,161	787,660
2019 - 2023	75,000		75,000	2,945,668	992,630	3,938,298
2024 - 2028	75,000		75,000	3,479,680	458,619	3,938,299
2029 - 2032	52,500		52,500	768,246	19,414	787,660
Total	<u>\$277,500</u>	<u>\$0</u>	<u>\$277,500</u>	<u>\$9,687,205</u>	<u>\$2,915,352</u>	<u>\$12,602,557</u>

Legal Debt Margins – At December 31, 2013, the City had a legal voted debt margin of \$13,249,170 and a legal unvoted debt margin of \$7,006,589.

14. RISK MANAGEMENT

A. Risk Pool Membership

The City belongs to the Ohio Plan Risk Management, Inc. (OPRM) – formerly known as the Ohio Government Risk Management Plan, (the “Plan”), a non-assessable, unincorporated nonprofit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (“Members”). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine, and other coverages to its Members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each Member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the Member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

14. RISK MANAGEMENT (Continued)

Effective November 1, 2012, the Plan increased its retention to 50% of the first \$250,000 casualty treaty. This change was made to balance the reinsurance market conditions. The Plan's property retention remained unchanged from prior years. Members are only responsible for their self-retention (deductible) amounts, which vary from Member to Member. OPRM had 767 and 765 Members as of December 31, 2012 and December 31, 2011, respectively.

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

The City also belongs to the Ohio Plan Healthcare Consortium, Inc. (OPHC) – formerly known as the Ohio Healthcare Consortium, (the "Plan"), a non-assessable, unincorporated nonprofit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

As authorized by Section 9.833 of the Ohio Revised Code, the OPHC was established to provide cost effective employee benefit programs for Ohio political subdivisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its Members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each Member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to Members. These plans vary primarily by deductibles, co-insurance levels, office visit co-pays and out-of-pocket maximums. OPHC had 92 and 74 Members as of December 31, 2013 and December 31, 2012, respectively.

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

Settlement amounts for OPRM and OPHC did not exceed insurance coverage during the last three years.

The OPRM and OPHC audited financial statements conform with generally accepted accounting principles (GAAP). OPRM and OPHC reported the following assets, liabilities and members' equity at December 31, 2013 and December 31, 2012:

	2012		2013	
	OPRM	OPHC	OPRM	OPHC
Assets	\$13,100,381	\$1,152,610	\$13,774,304	\$1,459,791
Liabilities	(6,687,193)	(1,615,537)	(7,968,395)	(1,283,527)
Members' Equity	<u>\$6,413,188</u>	<u>(\$462,927)</u>	<u>\$5,805,909</u>	<u>\$176,264</u>

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

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

14. RISK MANAGEMENT (Continued)

B. Property and Liability

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

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General Liability	\$6,000,000	
Law Enforcement Liability	6,000,000	\$5,000
Public Officials Liability	6,000,000	5,000
Employers Liability	6,000,000	
Employee Benefits Liability	6,000,000	
Automobile Fleet Liability	6,000,000	1,000
Buildings and Contents	87,942,144	1,000
Boiler and Machinery	40,000,000	Various
Inland Marine and Equipment	3,461,076	1,000

There were no significant reductions in insurance coverage from 2012 and no insurance settlement has exceeded insurance coverage during the last three years.

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

C. Employee Medical Benefits

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

The monthly premiums for the PPO plan are \$596.87 for single coverage and \$1,414.59 for family coverage, and the employee share ranges from 16% to 32% of the premium amount. The PPO plan has an in-network deductible of \$1,000 per year for single coverage and \$3,000 per year for family coverage. Maximum out-of-pocket limits for the PPO plan are equal to the in-network deductibles, \$1,000 per year for single coverage and \$3,000 per year for family coverage. The PPO plan has a maximum lifetime coverage limit of \$5,000,000.

The monthly premiums for the HSA plan are \$524.79 for single coverage and \$1,243.74 for family coverage, and the employee share ranges from 10% to 29% of the premium amount. The HSA plan has an in-network deductible of \$1,500 for single coverage and \$3,000 for family coverage. Maximum out-of-pocket limits for the HSA plan are equal to the in-network deductibles, \$1,500 per year for single coverage and \$3,000 per year for family coverage. The HSA plan has a maximum lifetime coverage limit of \$5,000,000.

D. Workers' Compensation

For 2013, the City participated in the Ohio Municipal League Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

14. RISK MANAGEMENT (Continued)

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

15. PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and contribution rates were consistent across all three plans. The 2013 member contribution rates were 10.00% for members. The City's contribution rate for 2013 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2013 was 13.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2013 was 13.00%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012, and 2011 were \$453,686, \$349,172, and \$343,441, respectively; 90.32% has been contributed for 2013 and 100% has been contributed for 2012 and 2011. The remaining 2013 pension liability has been reported as due to other governments on the basic financial statements. Contributions to the member-directed plan for 2013 were \$2,100 made by the City and \$1,500 made by the plan members.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

15. PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund

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

Funding Policy – From January 1, 2013 through July 1, 2013, plan members were required to contribute 10.00% of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75% of their annual covered salary. Throughout 2013, the City was required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute.

For 2013, the portion of the City's contributions to fund pension obligations was 14.81% for January 1, 2013 through May 31, 2013 and 16.65% for June 1, 2013 through December 31, 2013 for police officers and 19.31% for January 1, 2013 through May 31, 2013 and 21.15% for June 1, 2013 through December 31, 2013 for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$146,350 and \$159,894 for the year ended December 31, 2013, \$120,533 and \$134,482 for the year ended December 31, 2012, and \$116,848 and \$130,764 for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 88.80% has been contributed for police officers and 89.68% has been contributed for firefighters for 2013. The remaining 2013 pension liability has been reported as due to other governments on the basic financial statements.

16. POST-RETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

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

**CITY OF ST. MARYS
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

16. POST-RETIREMENT BENEFIT PLANS (Continued)

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2013, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2013 was 1.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2013 was 1.00%.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2013, 2012, and 2011 were \$34,884, \$141,126, and \$138,893, respectively; 90.32% has been contributed for 2013 and 100% has been contributed for 2012 and 2011. The remaining 2013 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

B. Ohio Police and Fire Pension Fund

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

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

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

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

**CITY OF ST. MARYS
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

16. POST-RETIREMENT BENEFIT PLANS (Continued)

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 4.69% of covered payroll from January 1, 2013 through May 31, 2013 and 2.85% of covered payroll from June 1, 2013 through December 31, 2013. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$32,626 and \$27,932 for the year ended December 31, 2013, \$63,812 and \$52,624 for the year ended December 31, 2012, and \$61,861 and \$51,169 for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 88.80% has been contributed for police officers and 89.68% has been contributed for firefighters for 2013. The remaining 2013 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

17. BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenues, expenditures and changes in fund balance – budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

17. BUDGETARY BASIS OF ACCOUNTING (Continued)

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented:

Net Change in Fund Balance	General fund
Budget basis	(\$794,103)
Net adjustment for revenue accruals	(66,044)
Net adjustment for expenditure accruals	(9,591)
Adjustment for encumbrances	159,524
GAAP basis	(\$710,214)

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

18. RESTRICTED ASSETS

Refundable electric customer deposits at December 31, 2013 in the amount of \$352,557 are presented as restricted assets (refundable cash deposits) on the proprietary fund statement of net position in the electric fund and in the business-type activities column of the statement of net position. The City also has permissive tax monies on deposit with Auglaize County at December 31, 2013 in the amount of \$6,452 presented as restricted assets (cash with fiscal agent) on the governmental fund balance sheet in the motor vehicle permissive tax fund (a non-major governmental fund) and in the governmental activities column of the statement of net position.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

19. LANDFILL CLOSURE/POST-CLOSURE COSTS

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

The City is in the process of closing the landfill. The landfill closure and post-closure liability of \$2,806,067 at December 31, 2013 represents the cumulative amount for closure and postclosure care. The amounts are based on what it would cost to perform all closure and post-closure care in 2013. 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.

20. CONTRACTUAL COMMITMENTS

At December 31, 2013, the City had the following contractual commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Contract Balance</u>
American Municipal Power, Inc.	\$15,001,200	\$13,593,834	\$1,407,366
Celina Landfill	220,000	207,233	12,767
Grande De Logement, LLC.	225,000	205,700	19,300
PAB Construction Co.	438,566	438,419	147
Professional Electric Products	119,500		119,500
Total contractual commitments	<u>\$16,004,266</u>	<u>\$14,445,186</u>	<u>\$1,559,080</u>

21. CONTINGENCIES

A. Grants

The City received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2013.

B. Litigation

The City is not currently a party to any legal proceedings that would have a materially adverse effect on the financial statements at December 31, 2013.

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

22. OTHER COMMITMENTS

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

Fund	Year End Encumbrances
General fund	\$142,584
Voted income tax fund	87,834
Non-major governmental funds	86,524
Total	\$316,942

23. FUND BALANCE

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

Fund balance	General	Voted Income Tax	Non-major Governmental Funds	Total Governmental Funds
Non-spendable:				
Prepayments	\$50,884		\$8,041	\$58,925
Materials and supplies inventory	35,446		15,637	51,083
Unclaimed monies	2,652			2,652
Total non-spendable	88,982		23,678	112,660
Restricted:				
Capital projects		\$3,048,367	214,376	3,262,743
Transportation projects			1,155,846	1,155,846
Community improvements			2,136,218	2,136,218
Other purposes			37,021	37,021
Total restricted		3,048,367	3,543,461	6,591,828
Committed:				
Capital projects			2,711,195	2,711,195
Leisure time activity			69,364	69,364
Total committed			2,780,559	2,780,559
Assigned:				
General government	54,595			54,595
Security of persons and property	35,788			35,788
Public health and welfare	38,210			38,210
Community environment	2,950			2,950
Leisure time activity	9,090			9,090
Subsequent year's appropriations	1,808,460			1,808,460
Total assigned	1,949,093			1,949,093
Unassigned (deficit)	792,181		(127,045)	665,136
Total fund balances	\$2,830,256	\$3,048,367	\$6,220,653	\$12,099,276

**CITY OF ST. MARYS
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

24. SIGNIFICANT SUBSEQUENT EVENTS

In February 2011, American Municipal Power (AMP) filed a lawsuit against Bechtel Power seeking damages of approximately \$100,000,000 in response to Bechtel Power's inaccurate cost estimates that allegedly resulted in the abandonment of AMP's AMPGS Project. AMP argued that Bechtel Power acted recklessly in its production of the cost estimates and that AMP was therefore entitled to the aforementioned damages. On March 31, 2014, the federal court system responded that Bechtel Power had not acted recklessly by definition and that it would be enforcing a clause in AMP's contract with Bechtel Power that limits damage recovery to \$500,000. This ruling ultimately resulted in the solidification of the stranded construction costs attributable to each entity involved with the AMPGS Project (including the City of St. Marys) as of December 31, 2013.

The City issued bond anticipation notes on June 13, 2014 in the amount of \$25,000 that mature on June 13, 2015 at an interest rate of 1.35%. These bond anticipation notes were used to refund a portion of the bond anticipation notes issued on May 16, 2013.

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Dave Yost • Auditor of State

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

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of St. Marys, Auglaize County, (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 20, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

October 20, 2014



Dave Yost • 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
NOVEMBER 18, 2014**