

CITY OF FOSTORIA

SENECA COUNTY

Audit Report

For the Year Ended December 31, 2010

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Members of Council
City of Fostoria
213 South Main Street
PO Box 1007
Fostoria, Ohio 44830-1007

We have reviewed the *Report of Independent Accountants* of the City of Fostoria, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

October 26, 2011

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**CITY OF FOSTORIA
 SENECA COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2010**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

City of Fostoria
Seneca County
213 South Main Street
Fostoria, Ohio 44830

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County, Ohio, (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County, Ohio, as of December 31, 2010, and the respective changes in financial position and cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Charles Harris Associates

Charles E. Harris & Associates, Inc.

August 30, 2011

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

The management's discussion and analysis of the City of Fostoria's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010. 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 2010 are as follows:

- The total net assets of the City increased \$1,188,290. Net assets of governmental activities decreased \$585,483 or 3.99% under 2009 net assets and net assets of business-type activities increased \$1,773,773 or 6.47% over 2009 net assets.
- General revenues accounted for \$6,438,368 or 73.02% of total governmental activities revenue. Program specific revenues accounted for \$2,378,682 or 26.98% of total governmental activities revenue.
- The City had \$8,941,544 in expenses related to governmental activities; \$2,378,682 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$6,438,368 were not adequate to cover the remaining expenses of the governmental activities of \$6,562,862.
- The general fund had revenues and other financing sources of \$6,732,411 in 2010. This represents a decrease of \$763,722 from 2009 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$7,227,588 in 2010, decreased \$906,271 from 2009. The net decrease in fund balance for the general fund was \$495,177 or 73.07%.
- Net assets for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2010 by \$1,773,773. This increase in net assets was due primarily to an increase in capital contributions.
- In the general fund, the actual revenues and other financing sources were \$76,886 less than in the final budget and actual expenditures and other financing uses were \$369,128 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues and other financing sources were \$251,034 less than the original revenues and other financing sources. Budgeted expenditures and other financing uses increased \$491,631 from the original to the final budget.

Using this Annual Financial Report

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

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

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Governmental activities - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements 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 and sewer operations are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental fund is the general 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 20-24 of this report.

Proprietary Funds

The City maintains 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 and sewer activities. 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 City has no internal service funds. The basic proprietary fund financial statements can be found on pages 25-27 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Private-purpose trust and agency funds are the City's only fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 28-29 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 30-61 of this report.

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets at December 31, 2010 and December 31, 2009.

	Net Assets					
	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>Assets</u>						
Current and other assets	\$ 7,231,921	\$ 8,054,123	\$ 2,571,515	\$ 2,529,697	\$ 9,803,436	\$ 10,583,820
Capital assets, net	<u>9,843,595</u>	<u>9,908,723</u>	<u>31,954,792</u>	<u>30,072,490</u>	<u>41,798,387</u>	<u>39,981,213</u>
Total assets	<u>17,075,516</u>	<u>17,962,846</u>	<u>34,526,307</u>	<u>32,602,187</u>	<u>51,601,823</u>	<u>50,565,033</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,666,301	1,771,712	4,763,271	4,662,563	6,429,572	6,434,275
Other liabilities	<u>1,311,301</u>	<u>1,507,737</u>	<u>572,058</u>	<u>522,419</u>	<u>1,883,359</u>	<u>2,030,156</u>
Total liabilities	<u>2,977,602</u>	<u>3,279,449</u>	<u>5,335,329</u>	<u>5,184,982</u>	<u>8,312,931</u>	<u>8,464,431</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	9,339,509	9,378,167	27,467,503	25,709,550	36,807,012	35,087,717
Restricted	4,900,050	4,981,412	-	-	4,900,050	4,981,412
Unrestricted (deficit)	<u>(141,645)</u>	<u>323,818</u>	<u>1,723,475</u>	<u>1,707,655</u>	<u>1,581,830</u>	<u>2,031,473</u>
Total net assets	<u>\$ 14,097,914</u>	<u>\$ 14,683,397</u>	<u>\$ 29,190,978</u>	<u>\$ 27,417,205</u>	<u>\$ 43,288,892</u>	<u>\$ 42,100,602</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2010, the City's assets exceeded liabilities by \$43,288,892. At year-end, net assets were \$14,097,914 and \$29,190,978 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 81.00% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2010, were \$9,339,509 and \$27,467,503 in the governmental and business-type activities respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$4,900,050, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance is a deficit unrestricted net assets balance of \$141,645.

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

The table below shows the changes in net assets for 2010 and 2009.

	Governmental		Change in Net Assets		Business-type		Total
	Activities		Activities				
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
Revenues:							
Program revenues:							
Charges for services	\$ 619,443	\$ 720,484	\$ 5,497,591	\$ 5,224,333	\$ 6,117,034	\$ 5,944,817	
Operating grants and contributions	1,346,962	993,137	-	-	1,346,962	993,137	
Capital grants and contributions	412,277	251,423	800,000	-	1,212,277	251,423	
Total program revenues	<u>2,378,682</u>	<u>1,965,044</u>	<u>6,297,591</u>	<u>5,224,333</u>	<u>8,676,273</u>	<u>7,189,377</u>	
General revenues:							
Property taxes	718,078	855,699	-	-	718,078	855,699	
Income taxes	4,563,495	4,993,149	-	-	4,563,495	4,993,149	
Unrestricted grants and entitlements	736,337	623,710	-	-	736,337	623,710	
Investment earnings	57,575	64,861	-	-	57,575	64,861	
Refunds and reimbursements	196,566	244,475	-	-	196,566	244,475	
Miscellaneous	166,317	172,852	237,643	21,571	403,960	194,423	
Total general revenues	<u>6,438,368</u>	<u>6,954,746</u>	<u>237,643</u>	<u>21,571</u>	<u>6,676,011</u>	<u>6,976,317</u>	
Total revenues	<u>8,817,050</u>	<u>8,919,790</u>	<u>6,535,234</u>	<u>5,245,904</u>	<u>15,352,284</u>	<u>14,165,694</u>	
Expenses:							
General government	1,734,259	1,747,661	-	-	1,734,259	1,747,661	
Security of persons and property	4,804,333	5,165,762	-	-	4,804,333	5,165,762	
Public health and welfare	248,302	279,320	-	-	248,302	279,320	
Transportation	1,274,664	1,136,804	-	-	1,274,664	1,136,804	
Community environment	758,981	705,125	-	-	758,981	705,125	
Leisure time activity	87,025	120,316	-	-	87,025	120,316	
Other	12,652	12,191	-	-	12,652	12,191	
Interest and fiscal charges	21,328	26,408	-	-	21,328	26,408	
Water	-	-	3,033,459	2,842,398	3,033,459	2,842,398	
Sewer	-	-	2,188,991	2,606,788	2,188,991	2,606,788	
Total expenses	<u>8,941,544</u>	<u>9,193,587</u>	<u>5,222,450</u>	<u>5,449,186</u>	<u>14,163,994</u>	<u>14,642,773</u>	
Increase (decrease) in net assets before transfers	(124,494)	(273,797)	1,312,784	(203,282)	835,705	632,423	
Transfers	<u>(460,989)</u>	<u>-</u>	<u>460,989</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Change in net assets	(585,483)	(273,797)	1,773,773	(203,282)	1,188,290	(477,079)	
Net assets at beginning of year	<u>14,683,397</u>	<u>14,957,194</u>	<u>27,417,205</u>	<u>27,620,487</u>	<u>42,100,602</u>	<u>42,577,681</u>	
Net assets at end of year	<u>\$ 14,097,914</u>	<u>\$ 14,683,397</u>	<u>\$ 29,190,978</u>	<u>\$ 27,417,205</u>	<u>\$ 43,288,892</u>	<u>\$ 42,100,602</u>	

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

Governmental Activities

Governmental activities net assets decreased \$585,483 in 2010.

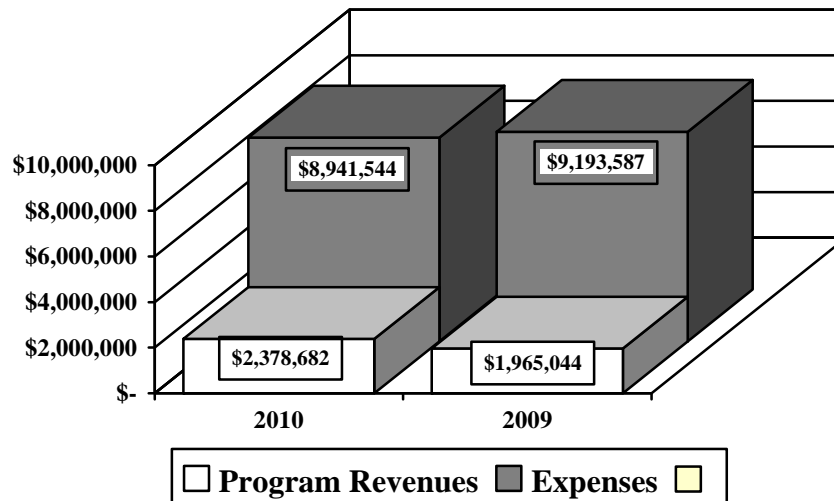
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$4,804,333 of the total expenses of the City. These expenses were partially funded by \$231,817 in direct charges to users of the services and \$131,625 in operating grants and contributions. Transportation expenses totaled \$1,274,664. Transportation expenses were partially funded by \$18,173 in direct charges to users of the services, \$742,110 in operating grants and contributions and \$337,473 in capital grants and contributions.

The state and federal government contributed to the City a total of \$1,346,962 in operating grants and contributions and \$412,277 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$742,110 subsidized transportation programs, \$466,265 subsidized community environment programs and \$131,625 subsidized security of persons and property activities.

General revenues totaled \$6,438,368, and amounted to 73.02% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$5,281,573. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue, making up \$736,337.

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

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF FOSTORIA, OHIO

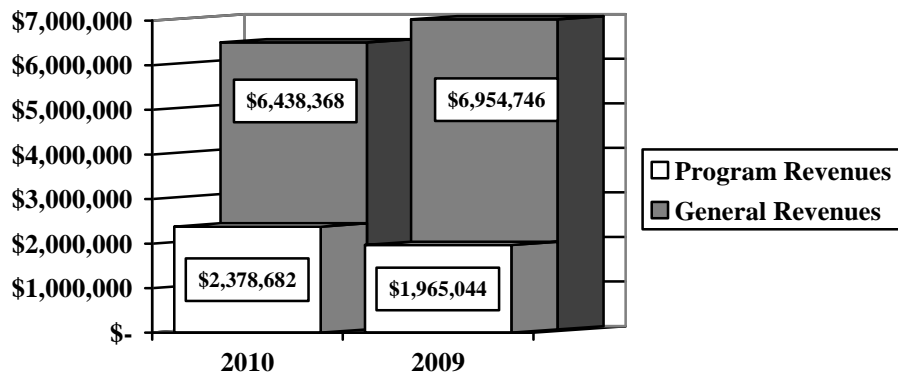
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

Governmental Activities

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program Expenses:				
General government	\$ 1,734,259	\$ 1,489,320	\$ 1,747,661	\$ 1,520,140
Security of persons and property	4,804,333	4,440,891	5,165,762	4,791,981
Public health and welfare	248,302	193,289	279,320	232,864
Transportation	1,274,664	176,908	1,136,804	170,816
Community environment	758,981	199,239	705,125	405,136
Leisure time activity	87,025	35,116	120,316	76,803
Other	12,652	6,771	12,191	4,395
Interest and fiscal charges	<u>21,328</u>	<u>21,328</u>	<u>26,408</u>	<u>26,408</u>
Total	<u>\$ 8,941,544</u>	<u>\$ 6,562,862</u>	<u>\$ 9,193,587</u>	<u>\$ 7,228,543</u>

The dependence upon general revenues for governmental activities is apparent, with 73.40% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



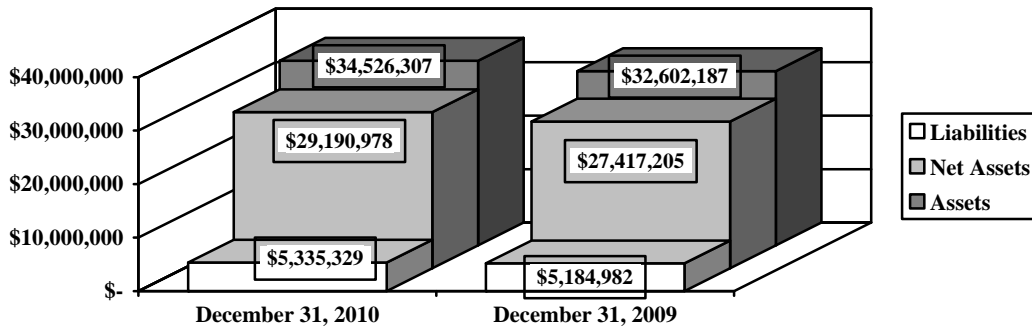
CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)

Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$6,297,591, general revenues of \$237,643 and expenses of \$5,222,450 for 2010. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$4,604,368 which is \$612,874 less than last year's total of \$5,217,242. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2010 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/10</u>	Fund Balances <u>12/31/09</u>	<u>(Decrease)</u>
Major funds:			
General	\$ 182,494	\$ 677,671	\$ (495,177)
Other nonmajor governmental funds	<u>4,421,874</u>	<u>4,539,571</u>	<u>(117,697)</u>
Total	<u>\$ 4,604,368</u>	<u>\$ 5,217,242</u>	<u>\$ (612,874)</u>

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

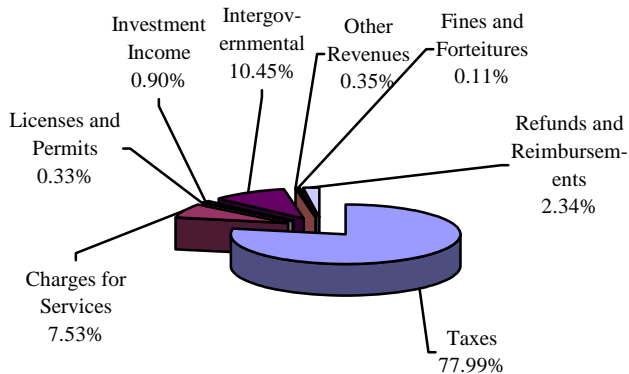
General Fund

The City's general fund balance decreased \$495,177, primarily due to a decrease in tax revenues. The table that follows assists in illustrating the revenues of the general fund.

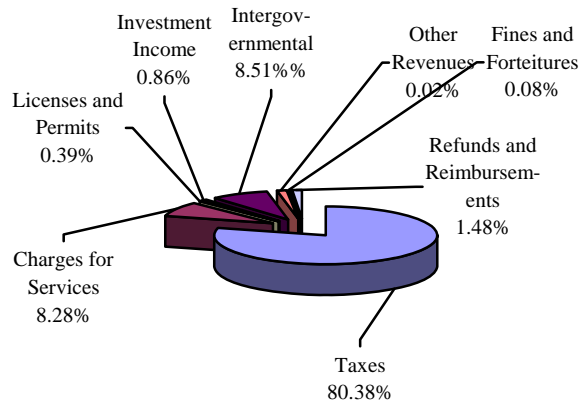
	2010 <u>Amount</u>	2009 <u>Amount</u>	Percentage <u>Change</u>
Revenues			
Taxes	\$ 5,244,293	\$ 5,984,450	(12.37) %
Charges for services	506,754	616,178	(17.76) %
Licenses and permits	22,435	29,314	(23.47) %
Investment income	60,212	63,792	(5.61) %
Fines and forfeitures	7,694	5,914	100.00 %
Intergovernmental	702,750	633,474	10.94 %
Refunds and reimbursements	157,534	110,009	43.20 %
Other	<u>28,125</u>	<u>1,286</u>	2,087.01 %
Total	<u>\$ 6,729,797</u>	<u>\$ 7,444,417</u>	(9.60) %

Tax revenue represents 77.93% of all general fund revenue. Tax revenue decreased by 12.37% over prior year. Investment income decreased 5.61% due to a decrease in the amount held by the City in interest-bearing investment accounts and interest rates. Licenses and permits decreased 23.47%. All other revenue remained comparable to 2009.

Revenues – 2010



Revenues – 2009



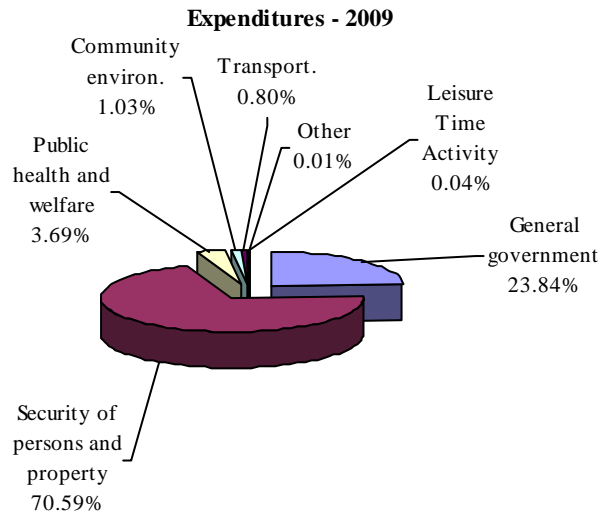
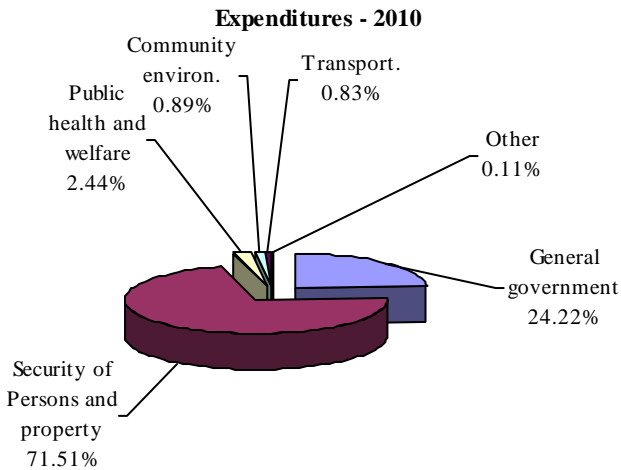
CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

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

	2010	2009	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,527,813	\$ 1,617,585	(5.55) %
Security of persons and property	4,510,462	4,789,370	(5.82) %
Public health and welfare	153,616	250,651	(38.71) %
Transportation	52,058	54,263	(4.06) %
Community environment	55,836	69,913	(20.14) %
Leisure time activity	-	2,521	100.00 %
Other	<u>7,787</u>	<u>133</u>	100.00 %
Total	<u>\$ 6,307,572</u>	<u>\$ 6,784,436</u>	(7.03) %

The community environment expenditure line item decreased 20.14%, which is primarily attributed to contract expenses in the zoning department. All expenditures remained comparable to 2009.



Budgeting Highlights

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

In the general fund, the actual revenues and other financing sources were \$76,886 less than in the final budget and actual expenditures and other financing uses were \$369,128 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues and other financing sources were \$251,034 less than the original revenues and other financing sources. Budgeted expenditures and other financing uses increased \$491,631 from the original to the final budget.

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)

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 and internal balances due to governmental activities for internal service activities. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

Capital Assets and Debt Administration

Capital Assets

At the end of 2010, the City had \$41,798,387 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, machinery and equipment, vehicles and infrastructure. Of this total, \$9,843,595 was reported in governmental activities and \$31,954,792 was reported in business-type activities. The following table shows December 31, 2010 balances compared to December 31, 2009.

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

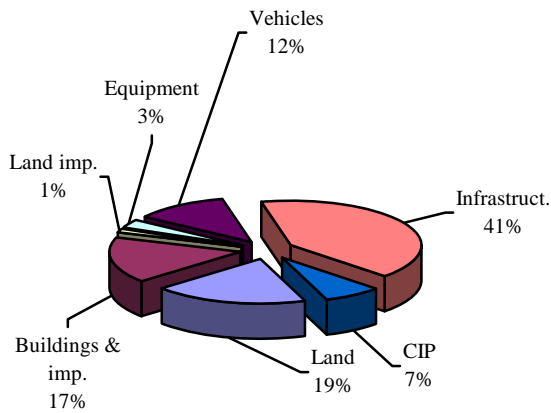
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 1,890,656	\$ 1,890,656	\$ 8,429,538	\$ 8,429,538	\$ 10,320,194	\$ 10,320,194
Land improvements	139,639	138,054	-	-	139,639	138,054
Buildings	1,631,876	1,737,458	6,517,377	6,693,096	8,149,253	8,430,554
Machinery and equipment	294,275	330,438	386,508	423,783	680,783	754,221
Vehicles	1,167,877	1,234,144	282,122	359,980	1,449,999	1,594,124
Infrastructure	4,020,152	4,035,712	13,773,633	14,166,093	17,793,785	18,201,805
Construction in progress	<u>699,120</u>	<u>542,261</u>	<u>2,565,614</u>	<u>-</u>	<u>3,264,734</u>	<u>542,261</u>
Totals	<u>\$ 9,843,595</u>	<u>\$ 9,908,723</u>	<u>\$ 31,954,792</u>	<u>\$ 30,072,490</u>	<u>\$ 41,798,387</u>	<u>\$ 39,981,213</u>

CITY OF FOSTORIA, OHIO

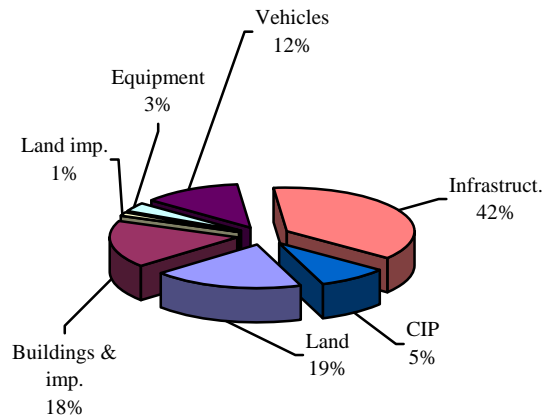
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

The following graphs show the breakdown of governmental capital assets by category for 2010 and 2009.

**Capital Assets - Governmental Activities
2010**



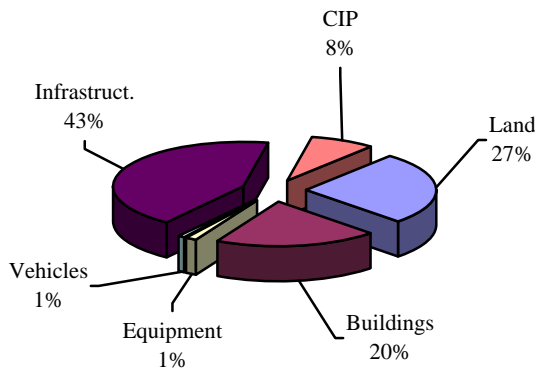
**Capital Assets - Governmental Activities
2009**



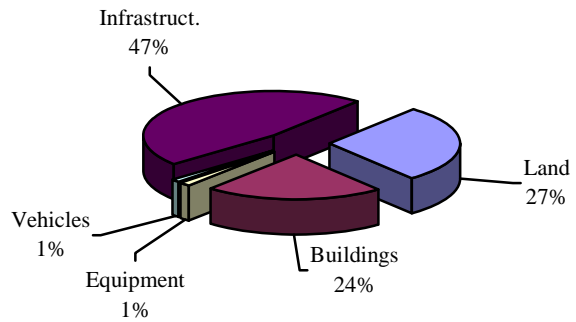
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 41% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2010 and 2009.

Capital Assets - Business-Type Activities 2010



Capital Assets - Business-Type Activities 2009



CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 43% of the City's total business-type capital assets. See Note 10 to the financial statements for more detail.

Debt Administration

The City had the following long-term debt obligations outstanding at December 31, 2010 and 2009:

Governmental Activities

	<u>2010</u>	<u>2009</u>
OPWC loans	\$ 176,997	\$ 99,581
Capital lease payable	126,471	211,262
Special assessment bonds	<u>200,618</u>	<u>219,713</u>
Total long-term obligations	<u>\$ 504,086</u>	<u>\$ 530,556</u>

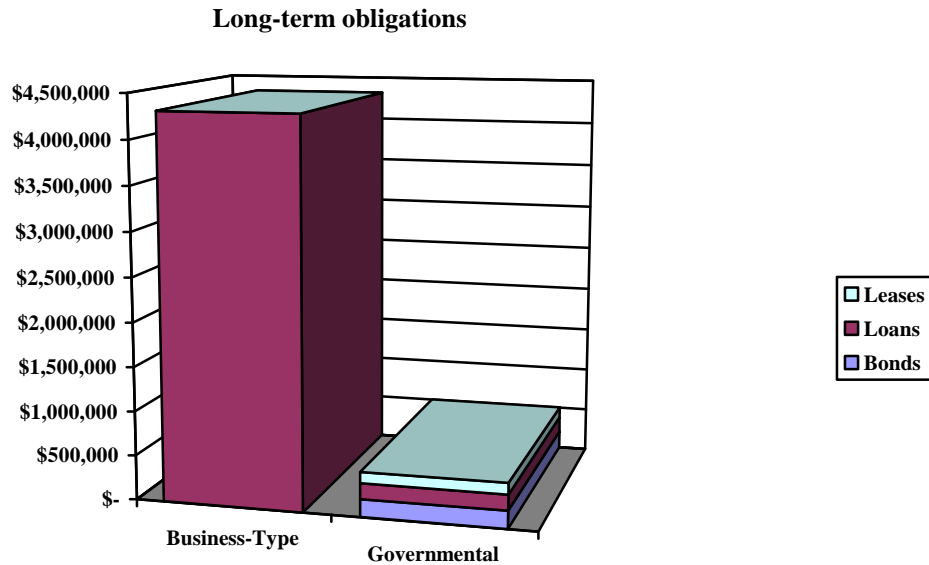
Business-Type Activities

	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ -	\$ 260,000
OPWC loans	169,666	188,615
OWDA loans	<u>4,317,623</u>	<u>3,917,246</u>
Total long-term obligations	<u>\$ 4,487,289</u>	<u>\$ 4,365,861</u>

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

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



See Note 13 to the financial statements for more detail on the City's long term obligations.

Economic Factors and Next Year's Budgets and Rates

The City's current population as of the 2000 census is 13,931.

Over the past few years, the City has experienced what many cities across the State of Ohio have experienced. A slowdown in the overall economy, decreased funding from both the State and Federal level, and general downsizing in industry have created a challenging economic environment for the City. The loss of jobs and reduction in industry has resulted in decreased income tax revenue projections. This decrease in income tax has been factored into the 2010 budget.

These economic factors were considered in preparing the City's budget for fiscal year 2011. Budgeted revenues and other financing sources in the general fund for fiscal year 2011 budget are \$6,044,785. With the continuation of conservative budgeting practices, the City's should be able to maintain its current financial position.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Steve Garner, Auditor, City of Fostoria, 213 S. Main Street, P.O. Box 1007, Fostoria, Ohio 44830.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF FOSTORIA, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents.	\$ 2,449,722	\$ 1,637,742	\$ 4,087,464
Cash and cash equivalents with fiscal agent	49,625	-	49,625
Receivables (net of allowances for uncollectibles):			
Income taxes	1,196,254	-	1,196,254
Real and other taxes	776,475	-	776,475
Accounts	43,460	878,325	921,785
Due from other governments	706,409	-	706,409
Special assessments	255,090	-	255,090
Loans.	1,621,599	-	1,621,599
Materials and supplies inventory.	133,287	55,448	188,735
Capital assets:			
Land and construction in progress	2,589,776	10,995,152	13,584,928
Depreciable capital assets, net	7,253,819	20,959,640	28,213,459
Total capital assets, net	9,843,595	31,954,792	41,798,387
 Total assets.	 <u>17,075,516</u>	 <u>34,526,307</u>	 <u>51,601,823</u>
Liabilities:			
Accounts payable.	134,830	339,222	474,052
Accrued wages and benefits	63,353	28,799	92,152
Due to other governments	218,791	123,985	342,776
Pension obligation payable.	153,219	26,070	179,289
Unearned revenue	738,880	-	738,880
Accrued interest payable.	2,228	53,982	56,210
Long-term liabilities:			
Due within one year	499,077	531,622	1,030,699
Due in more than one year	1,167,224	4,231,649	5,398,873
 Total liabilities	 <u>2,977,602</u>	 <u>5,335,329</u>	 <u>8,312,931</u>
Net assets:			
Invested in capital assets, net of related debt	9,339,509	27,467,503	36,807,012
Restricted for:			
Capital projects.	835,077	-	835,077
Debt service	22,886	-	22,886
Security of persons and property.	80,463	-	80,463
Transportation projects.	1,318,860	-	1,318,860
Revolving loans	1,998,836	-	1,998,836
Public health and welfare.	112,779	-	112,779
Community environment programs.	203,924	-	203,924
Perpetual care:			
Expendable.	2,673	-	2,673
Nonexpendable	20,000	-	20,000
Other purposes	304,552	-	304,552
Unrestricted (deficit)	(141,645)	1,723,475	1,581,830
 Total net assets	 <u>\$ 14,097,914</u>	 <u>\$ 29,190,978</u>	 <u>\$ 43,288,892</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,734,259	\$ 244,939	\$ -	\$ -
Security of persons and property.	4,804,333	231,817	131,625	-
Public health and welfare	248,302	55,013	-	-
Transportation	1,274,664	18,173	742,110	337,473
Community environment.	758,981	18,673	466,265	74,804
Leisure time activity.	87,025	45,509	6,400	-
Other	12,652	5,319	562	-
Interest and fiscal charges	21,328	-	-	-
Total governmental activities	<u>8,941,544</u>	<u>619,443</u>	<u>1,346,962</u>	<u>412,277</u>
Business-type activities:				
Water	3,033,459	2,762,389	-	800,000
Sewer	<u>2,188,991</u>	<u>2,735,202</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>5,222,450</u>	<u>5,497,591</u>	<u>-</u>	<u>800,000</u>
Total primary government	<u>\$ 14,163,994</u>	<u>\$ 6,117,034</u>	<u>\$ 1,346,962</u>	<u>\$ 1,212,277</u>

General revenues:

Property taxes levied for:

 General purposes

 Police and fire pension

Income taxes levied for:

 General purposes

Grants and entitlements not restricted to specific programs.

Investment earnings

Refunds and reimbursements

Miscellaneous

Total general revenues.

Transfers.

Change in net assets.

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,489,320)	\$ -	\$ (1,489,320)
(4,440,891)	-	(4,440,891)
(193,289)	-	(193,289)
(176,908)	-	(176,908)
(199,239)	-	(199,239)
(35,116)	-	(35,116)
(6,771)	-	(6,771)
(21,328)	-	(21,328)
<u>(6,562,862)</u>	<u>-</u>	<u>(6,562,862)</u>
-	528,930	528,930
-	546,211	546,211
-	1,075,141	1,075,141
<u>(6,562,862)</u>	<u>1,075,141</u>	<u>(5,487,721)</u>
623,146	-	623,146
94,932	-	94,932
4,563,495	-	4,563,495
736,337	-	736,337
57,575	-	57,575
196,566	-	196,566
166,317	237,643	403,960
<u>6,438,368</u>	<u>237,643</u>	<u>6,676,011</u>
<u>(460,989)</u>	<u>460,989</u>	<u>-</u>
(585,483)	1,773,773	1,188,290
<u>14,683,397</u>	<u>27,417,205</u>	<u>42,100,602</u>
<u>\$ 14,097,914</u>	<u>\$ 29,190,978</u>	<u>\$ 43,288,892</u>

CITY OF FOSTORIA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ -	\$ 2,449,722	\$ 2,449,722
Cash and cash equivalents with fiscal agent	-	49,625	49,625
Receivables (net of allowance for uncollectibles):			
Income taxes.	1,196,254	-	1,196,254
Real and other taxes.	669,068	107,407	776,475
Accounts	43,460	-	43,460
Due from other governments.	249,963	456,446	706,409
Special assessments.	-	255,090	255,090
Loans.	-	1,621,599	1,621,599
Due from other funds	-	141,543	141,543
Interfund loan receivable.	17,450	-	17,450
Materials and supplies inventory	-	133,287	133,287
Total assets	<u>\$ 2,176,195</u>	<u>\$ 5,214,719</u>	<u>\$ 7,390,914</u>
Liabilities:			
Accounts payable	\$ 56,833	\$ 77,997	\$ 134,830
Accrued wages and benefits.	58,036	5,317	63,353
Interfund loan payable.	-	17,450	17,450
Due to other governments.	198,642	20,149	218,791
Pension obligation payable	151,072	2,147	153,219
Due to other funds	141,543	-	141,543
Unearned revenue	636,500	102,380	738,880
Deferred revenue	751,075	567,405	1,318,480
Total liabilities	<u>1,993,701</u>	<u>792,845</u>	<u>2,786,546</u>
Fund balances:			
Reserved for encumbrances.	28,068	181,846	209,914
Reserved for materials and supplies inventory	-	133,287	133,287
Reserved for loans	-	1,621,599	1,621,599
Reserved for perpetual care	-	20,000	20,000
Reserved for debt service.	-	22,886	22,886
Unreserved, undesignated, reported in:			
General fund.	154,426	-	154,426
Special revenue funds.	-	1,889,505	1,889,505
Capital projects funds.	-	550,078	550,078
Permanent fund	-	2,673	2,673
Total fund balances	<u>182,494</u>	<u>4,421,874</u>	<u>4,604,368</u>
Total liabilities and fund balances.	<u>\$ 2,176,195</u>	<u>\$ 5,214,719</u>	<u>\$ 7,390,914</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Total governmental fund balances		\$ 4,604,368
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,843,595
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 36,281	
Income taxes	559,642	
Special assessments	255,090	
Intergovernmental revenues	467,467	
Total		1,318,480
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(2,228)
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:		
Special assessment bonds payable	200,618	
Capital lease payable	126,471	
Compensated absences payable	1,162,215	
OPWC loans payable	176,997	
Total		(1,666,301)
Net assets of governmental activities		\$ 14,097,914

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Municipal income taxes	\$ 4,599,590	\$ -	\$ 4,599,590
Property and other taxes	644,703	98,321	743,024
Charges for services	506,754	48,778	555,532
Licenses and permits	22,435	-	22,435
Fines and forfeitures	7,694	19,582	27,276
Intergovernmental	702,750	1,459,098	2,161,848
Special assessments	-	44,037	44,037
Investment income	60,212	41,759	101,971
Rental income	-	2,050	2,050
Refunds and reimbursements	157,534	80,103	237,637
Contributions and donations	4,369	210,819	215,188
Other	23,756	97,121	120,877
Total revenues	<u>6,729,797</u>	<u>2,101,668</u>	<u>8,831,465</u>
Expenditures:			
Current:			
General government	1,527,813	129,579	1,657,392
Security of persons and property	4,510,462	187,243	4,697,705
Public health and welfare	153,616	64,756	218,372
Transportation	52,058	831,228	883,286
Community environment	55,836	668,798	724,634
Leisure time activity	-	112,054	112,054
Other	7,787	4,865	12,652
Capital outlay	-	1,103,537	1,103,537
Debt service:			
Principal retirement	-	123,416	123,416
Interest and fiscal charges	-	22,851	22,851
Total expenditures	<u>6,307,572</u>	<u>3,248,327</u>	<u>9,555,899</u>
Excess (deficiency) of revenues over (under) expenditures	<u>422,225</u>	<u>(1,146,659)</u>	<u>(724,434)</u>
Other financing sources (uses):			
Sale of capital assets	2,614	12,000	14,614
Transfers in	-	920,016	920,016
Transfers (out)	(920,016)	-	(920,016)
OPWC loan issuance	-	96,946	96,946
Total other financing sources (uses)	<u>(917,402)</u>	<u>1,028,962</u>	<u>111,560</u>
Net change in fund balances	(495,177)	(117,697)	(612,874)
Fund balances at beginning of year	<u>677,671</u>	<u>4,539,571</u>	<u>5,217,242</u>
Fund balances at end of year	<u>\$ 182,494</u>	<u>\$ 4,421,874</u>	<u>\$ 4,604,368</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Net change in fund balances - total governmental funds \$ (612,874)

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.

Capital outlay	\$ 570,124	
Depreciation expense	(592,899)	
Total	(22,775)	(22,775)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (42,353)

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

Property taxes	(24,946)	
Income taxes	(36,095)	
Special assessments	(31,887)	
Intergovernmental	81,510	
Interest	(2,997)	
Total	(14,415)	(14,415)

Repayment of bond, lease and loan principal are expenditures in the governmental funds, but the repayments reduces long-term liabilities on the statement of net assets. 123,416

Proceeds of loans are reported as revenue in the governmental funds, but increase long-term liabilities in the statement of activities. (96,946)

In the statement of activities, interest is accrued on outstanding bonds and leases, whereas in governmental funds an interest expenditure is reported when due. 1,523

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. 78,941

Change in net assets of governmental activities \$ (585,483)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 4,779,126	\$ 4,610,479	\$ 4,558,827	\$ (51,652)
Property and other taxes	675,692	651,848	644,545	(7,303)
Charges for services	621,685	599,747	593,028	(6,719)
Licenses and permits.	21,370	20,616	20,385	(231)
Fines and forfeitures.	8,066	7,781	7,694	(87)
Intergovernmental	729,945	704,186	696,297	(7,889)
Investment income	80,564	77,721	76,850	(871)
Refunds and reimbursements.	165,147	159,319	157,534	(1,785)
Contributions and donations.	4,580	4,419	4,369	(50)
Other	24,904	24,025	23,756	(269)
Total revenues.	<u>7,111,079</u>	<u>6,860,141</u>	<u>6,783,285</u>	<u>(76,856)</u>
Expenditures:				
Current:				
General government:				
Legislative and executive.	1,004,335	1,239,282	1,072,334	166,948
Judicial.	482,881	480,941	479,968	973
Security of persons and property	4,539,259	4,670,448	4,618,250	52,198
Public health and welfare.	151,043	153,117	154,129	(1,012)
Transportation	60,093	51,947	52,362	(415)
Community environment	78,705	58,970	57,310	1,660
Other.	-	148,792	-	148,792
Total expenditures	<u>6,316,316</u>	<u>6,803,497</u>	<u>6,434,353</u>	<u>369,144</u>
Excess of revenues over expenditures.	<u>794,763</u>	<u>56,644</u>	<u>348,932</u>	<u>292,288</u>
Other financing (uses):				
Sale of capital assets.	2,740	2,644	2,614	(30)
Transfers (out).	(920,000)	(920,000)	(920,016)	(16)
Advances out	-	(4,450)	(4,450)	-
Total other financing (uses).	<u>(917,260)</u>	<u>(921,806)</u>	<u>(921,852)</u>	<u>(46)</u>
Net change in fund balance	(122,497)	(865,162)	(572,920)	292,242
Fund balance at beginning of year.	369,719	369,719	369,719	-
Prior year encumbrances appropriated	<u>30,971</u>	<u>30,971</u>	<u>30,971</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 278,193</u>	<u>\$ (464,472)</u>	<u>\$ (172,230)</u>	<u>\$ 292,242</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2010

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 53,614	\$ 1,584,128	\$ 1,637,742
Receivables (net of allowance for uncollectibles):			
Accounts.	490,359	387,966	878,325
Materials and supplies inventory	39,312	16,136	55,448
Total current assets	<u>583,285</u>	<u>1,988,230</u>	<u>2,571,515</u>
Noncurrent assets:			
Capital assets:			
Land and construction in progress	9,648,841	1,346,311	10,995,152
Depreciable capital assets, net	8,569,867	12,389,773	20,959,640
Total capital assets, net	<u>18,218,708</u>	<u>13,736,084</u>	<u>31,954,792</u>
Total assets.	<u>18,801,993</u>	<u>15,724,314</u>	<u>34,526,307</u>
Liabilities:			
Current liabilities:			
Accounts payable	97,665	241,557	339,222
Accrued wages and benefits.	16,771	12,028	28,799
Due to other governments.	45,402	78,583	123,985
Pension obligation payable	13,945	12,125	26,070
Accrued interest payable	15,613	38,369	53,982
Current portion of compensated absences	66,167	47,523	113,690
Current portion of OWDA loans	53,991	344,992	398,983
Current portion of OPWC loans	6,851	12,098	18,949
Total current liabilities	<u>316,405</u>	<u>787,275</u>	<u>1,103,680</u>
Long-term liabilities:			
OWDA loans.	1,349,910	2,568,730	3,918,640
OPWC loans	30,832	119,885	150,717
Compensated absences.	94,452	67,840	162,292
Total long-term liabilities.	<u>1,475,194</u>	<u>2,756,455</u>	<u>4,231,649</u>
Total liabilities	<u>1,791,599</u>	<u>3,543,730</u>	<u>5,335,329</u>
Net assets:			
Invested in capital assets, net of related debt. . .	16,777,124	10,690,379	27,467,503
Unrestricted	233,270	1,490,205	1,723,475
Total net assets	<u>\$ 17,010,394</u>	<u>\$ 12,180,584</u>	<u>\$ 29,190,978</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 2,762,389	\$ 2,735,202	\$ 5,497,591
Other	34,969	3,132	38,101
Total operating revenues	<u>2,797,358</u>	<u>2,738,334</u>	<u>5,535,692</u>
Operating expenses:			
Personal services	1,532,729	1,178,678	2,711,407
Contract services	174,965	251,546	426,511
Materials and supplies	679,162	103,261	782,423
Utilities	200,317	219,940	420,257
Depreciation	352,526	354,786	707,312
Other	46,646	242	46,888
Total operating expenses.	<u>2,986,345</u>	<u>2,108,453</u>	<u>5,094,798</u>
Operating income (loss)	<u>(188,987)</u>	<u>629,881</u>	<u>440,894</u>
Nonoperating revenues (expenses):			
Interest expense and fiscal charges	(47,114)	(80,538)	(127,652)
Other nonoperating revenues	68,952	130,590	199,542
Total nonoperating expenses.	<u>21,838</u>	<u>50,052</u>	<u>71,890</u>
Income (loss) before capital contributions.	(167,149)	679,933	512,784
Capital contributions.	<u>800,000</u>	<u>460,989</u>	<u>1,260,989</u>
Changes in net assets.	632,851	1,140,922	1,773,773
Net assets at beginning of year.	<u>16,377,543</u>	<u>11,039,662</u>	<u>27,417,205</u>
Net assets at end of year.	<u>\$ 17,010,394</u>	<u>\$ 12,180,584</u>	<u>\$ 29,190,978</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 2,733,010	\$ 2,737,924	\$ 5,470,934
Cash received from other operations.	34,969	3,132	38,101
Cash payments for personal services	(1,475,595)	(1,176,035)	(2,651,630)
Cash payments for contract services	(175,915)	(238,160)	(414,075)
Cash payments for materials and supplies	(652,202)	(97,622)	(749,824)
Cash payments for utilities.	(204,371)	(217,836)	(422,207)
Cash payments for other expenses.	(46,646)	(242)	(46,888)
Net cash provided by operating activities.	<u>213,250</u>	<u>1,011,161</u>	<u>1,224,411</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(1,575,925)	(410,180)	(1,986,105)
Loan issuance.	727,541	54,180	781,721
Capital contributions	800,000	-	800,000
Principal retirement on bonds and loans	(318,412)	(341,881)	(660,293)
Interest paid on bonds and loans	(45,776)	(88,057)	(133,833)
Net cash used in capital and related financing activities	<u>(412,572)</u>	<u>(785,938)</u>	<u>(1,198,510)</u>
Net increase (decrease) in cash and cash equivalents.	(199,322)	225,223	25,901
Cash and cash equivalents at beginning of year	<u>252,936</u>	<u>1,358,905</u>	<u>1,611,841</u>
Cash and cash equivalents at end of year	<u>\$ 53,614</u>	<u>\$ 1,584,128</u>	<u>\$ 1,637,742</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (188,987)	\$ 629,881	\$ 440,894
Adjustments:			
Depreciation	352,526	354,786	707,312
Changes in assets and liabilities:			
Decrease in materials and supplies inventory.	3,537	3,601	7,138
(Increase)/decrease in accounts receivable	(29,379)	2,722	(26,657)
Increase in accounts payable	59,236	34,105	93,341
(Decrease) in accrued wages and benefits	(5,625)	(7,481)	(13,106)
Increase in pension obligations payable.	10,843	9,423	20,266
Increase/(decrease) in due to other governments	(6,294)	22,237	15,943
Increase/(decrease) in compensated absences payable	17,393	(38,113)	(20,720)
Net cash provided by operating activities	<u>\$ 213,250</u>	<u>\$ 1,011,161</u>	<u>\$ 1,224,411</u>

During 2010, the sewer fund received capital contributions of \$460,989 from governmental funds.
At December 31, 2010, the water fund purchased \$20,913 in capital assets on account.
At December 31, 2010, the sewer fund purchased \$203,462 in capital assets on account.
At December 31, 2009, the water fund purchased \$69,297 in capital assets on account.
At December 31, 2009, the sewer fund purchased \$12,558 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2010

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 12,831	\$ 2,386
Cash in segregated accounts	-	30,575
	<hr/>	<hr/>
Total assets.	<u>\$ 12,831</u>	<u>\$ 32,961</u>
Liabilities:		
Due to other governments	-	\$ 30,575
Undistributed monies	-	2,386
	<hr/>	<hr/>
Total liabilities	<hr/> -	<u>\$ 32,961</u>
Net assets:		
Held in trust for other purposes	<u>\$ 12,831</u>	
Total net assets	<u>\$ 12,831</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Private Purpose Trust</u>
Additions:	
Interest	<u>\$ 38</u>
Total additions.	<u>38</u>
Reductions:	
Other	<u>736</u>
Total deductions	<u>736</u>
Changes in net assets	(698)
Net assets at the beginning of the year.	<u>13,529</u>
Net assets at the end of the year	<u><u>\$ 12,831</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 1 - DESCRIPTION OF THE CITY

The City of Fostoria, Ohio (the "City"), located in Seneca County, is a politic and corporate body established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and its charter. The City operates under a Council/Mayor form of government and provides the following services to its residents: public safety, public services, recreation and development.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The 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". The City includes in its reporting entity all funds, account groups, agencies and departments over which the City's executive or legislative branches (the Mayor or Council, respectively) exercise primary oversight responsibility. Based on application of the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39, the City evaluated potential component units (PCU) for inclusion based on financial accountability, the nature and significance of their relationship to the City, and whether exclusion would cause the financial statements to be misleading or incomplete. Among the factors considered were whether the City holds the PCU's corporate power, appoints a voting majority of the PCU's board, is able to impose its will on the PCU, or whether a financial benefit/burden relationship exists between the City and the PCU. To provide necessary services to its citizens, the City of Fostoria is divided into various departments including police, fire fighting and prevention, emergency medical services, street maintenance, parks and recreation, public service and planning, and zoning. The operation of each of these departments is directly controlled by the City through the budgetary process and therefore is included as a part of the reporting entity.

Based on the foregoing criteria, the City has no component units. The following organization is described due to their relationship to the City:

JOINTLY GOVERNED ORGANIZATION

Fostoria Economic Development Corporation (FEDC) - The City is a participant in FEDC, which is an association of businesses and government within the City. The organization was formed for the purpose of fostering economic growth, encouraging new industries, and developing employment opportunities in the City. The Governing Board of FEDC includes two representatives of the City; in addition, the City Auditor sits on the finance committee. Financial information can be obtained from Dennis Hellman, who serves as director, at 121 North Main Street, Fostoria, Ohio 44830.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

The City has entered into an open-ended mortgage with FEDC. Since November 1994, the City has loaned \$863,300 for the purpose of building and maintaining a spec building in the Industrial Park of the City. Upon sale of the building to an industry, FEDC will repay the loan.

RELATED ORGANIZATION

Kaubisch Memorial Public Library - The Kaubisch Memorial Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the mayor of the City of Fostoria. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the City for operational subsidies. Although the City does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Kaubisch Memorial Public Library, c/o Clerk/Treasurer, at 205 Perry St., Fostoria, Ohio 44830.

B. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for sales and services. Operating expenses for the enterprise fund include personnel and other expenses related to sewer and water operations. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

C. Fund Accounting

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

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

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

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

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. The City's only proprietary funds are enterprise funds.

Enterprise funds - The 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 provision of water treatment and distribution to its residential and commercial users located within the City and to persons owning property adjacent to the corporation limits. The City also sells water to the Northwestern Water District and the Village of Arcadia.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are private-purpose trust and agency funds. The City's private-purpose funds account for the Brubaker Trust, Henry H. Geary Jr. Trust, Laverne May Trust and Beard Flower Trust. The City's agency funds account for employee bonds, state patrol transfers, Fire Insurance Trust, First Step Domestic Violence Grant, and Community Foundation Grant.

D. Measurement Focus and Basis of Accounting

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

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

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

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 agency funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance 2011 operations, and other revenues received in advance of the year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at December 31, 2010 are recorded as deferred revenue.

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

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

F. Budgetary Data

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 resolution, 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.

The legal level of budgetary control is at the department/program/object level in the general fund and at the personal services level for the remaining funds. All other expenses are grouped together for the remaining funds. Although statutes require that all funds be budgeted, it is not necessary to do so if City Council does not anticipate expenditure of the available funds.

Segregated cash accounts are not included in the budgetary presentation because they are not controlled by the City and the departments do not adopt separate budgets. Advances-in and advances-out are not required to be budgeted since they represent a cash flow resource. Budgetary modifications may only be made by resolution of the City Council.

Tax Budget - During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The 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 projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal 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 encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the original and final amended official certificates of estimated resources issued during 2010.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the legal level of budgetary control. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications, legally enacted by Council.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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 appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

Cash balances of the City's funds, are pooled and invested in investments maturing within ten years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "equity in pooled cash and cash equivalents" on the financial statements.

During 2010, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2010.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2010 amounted to \$60,212, which included \$57,183 assigned from other funds of the City.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments, to the extent a specific fund has purchased the investment.

The Seneca County Auditor maintains undistributed permissive tax received. The balance of this account at December 31, 2010 was \$49,625. This account is presented on the financial statements as "cash and cash equivalents with fiscal agent". The City has segregated bank accounts for Municipal Court monies and income tax paid by credit card held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "cash in segregated accounts" since they are not required to be deposited into the City treasury.

H. Inventories of Materials and Supplies

On the government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

I. Capital Assets

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	15 - 20 years	15 - 20 years
Buildings	20 - 45 years	50 years
Machinery and equipment	5 - 30 years	5 - 20 years
Vehicles	3 - 10 years	3 - 10 years
Infrastructure	10 - 50 years	80 years

J. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with GASB Statement No. 16, "Accounting for 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 that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or older with at least twenty (20) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable". On fund financial statements, receivables and payables resulting from loans to cover negative fund cash balances are classified as "due to/from other funds". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

M. Interfund Activity

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

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

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

N. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, materials and supplies inventory, loans receivable, debt service and perpetual care in the governmental fund financial statements.

O. Estimates

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

P. Contributions of Capital

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

Q. Net Assets

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

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

R. Bond Discounts, Premiums and Issuance Costs

Material discounts, premiums, and issuance costs are reported as deferred charges and amortized over the life of the bond using the straight-line method. Any material discounts or premiums (1) are shown as additions to, or deductions from, the account of the bond liability, (2) are amortized using the straight-line method, and (3) are reflected as interest income or expense in the statement of activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the City has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the City.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the City.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the City.

B. Deficit Fund Balances

The following funds had deficit fund balances at December 31, 2010:

Nonmajor governmental funds:

Fire department grant	\$	15,434
Park and recreation		5,133

These deficit fund balances are the result of accrued liabilities at year end.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current 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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies may be deposited or invested in the following:

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash in Segregated Accounts

At year end, \$30,575 was on deposit in segregated accounts for the Municipal Court, small business checking, and tax account. These accounts are included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the balance sheet as “equity in pooled cash and cash equivalents”.

B. Cash with Fiscal Agent

At December 31, 2010, \$49,625 was on deposit with the City’s fiscal agent for undistributed permissive tax received. This amount is excluded from the internal cash pool reported on the balance sheet as “equity in pooled cash and cash equivalents”.

C. Deposits with Financial Institutions

At December 31, 2010, the carrying amount of all City deposits, including cash with fiscal agent and cash in segregated accounts, was \$2,874,505. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2010, \$2,673,276 of the City’s bank balance of \$2,984,842 was exposed to custodial risk as discussed below, while \$311,566 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.

D. Investments

As of December 31, 2010, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity 6 months or less
STAR Ohio	\$ 1,308,376	\$ 1,308,376

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 1,308,376	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,874,505
Investments	<u>1,308,376</u>
Total	<u>\$ 4,182,881</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,499,347
Business-type activities	1,637,742
Private-purpose funds	12,831
Agency funds	<u>32,961</u>
Total	<u>\$ 4,182,881</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2010, consisted of the following, as reported in the fund financial statements:

	<u>Transfers to</u>	<u>Transfers from</u>
	<u>Nonmajor governmental funds</u>	<u>General</u>
		\$ 920,016

Transfers are used to (1) move revenues from the fund that statute or budget requires 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 on the government-wide financial statements.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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 at December 31, 2010, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 17,450

The primary purpose of the interfund balance is to cover costs in specific funds where revenues were not received by year end. These interfund balances will be repaid once the anticipated revenues are received.

- C.** Due from/to other funds consisted of the following at December 31, 2010, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Nonmajor governmental fund	General	\$ 141,543

The balance resulted from a negative cash balance in the general fund at year end. The balance is eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Fiscal Officer 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. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Fostoria. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 2010 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2010 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate applied to real property and tangible personal property for the year ended December 31, 2010 were as follows:

Seneca County - \$4.20 per \$1,000 of assessed valuation
Wood County - \$3.70 per \$1,000 of assessed valuation
Hancock County - \$2.80 per \$1,000 of assessed valuation

Real Property

Residential/Agricultural	\$ 112,993,470
Commercial/Industrial/Mineral	50,631,690

Public Utility

Real	246,740
Personal	<u>6,762,980</u>

Total Assessed Value	<u><u>\$ 170,634,880</u></u>
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NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 2 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City, and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of for-profit organizations conducting business within the City. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2010 was \$4,599,590 as reported on the fund financial statements.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 8 - RECEIVABLES

Receivables at December 31, 2010, consisted of taxes, accounts (billings for user charged services), accrued interest, loans, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as “due from other governments” on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2010, as well as intended to finance 2010 operations.

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

Governmental activities:

Income taxes	\$ 1,196,254
Real and other taxes	776,475
Accounts	43,460
Due from other governments	706,409
Special assessments	255,090
Loans	1,621,599

Business-type activities:

Accounts	878,325
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Receivables have been disaggregated on the face of the BFS. The only receivables not expected to be collected within the subsequent year are the special assessments and loans, which are collected over the life of the assessments and the loan agreements.

NOTE 9 - LOANS RECEIVABLE

The Fostoria City Council created the Revolving Loan Committee and granted them the authority to act on behalf of the City in making loans from the City’s Revolving Loan Fund to qualified applicants within the revolving loan fund geographic area. At the close of 2010, there were loans outstanding to businesses with a total principal balance due of \$1,621,599.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 10 - CAPITAL ASSETS

<u>Governmental activities:</u>	<u>Balance</u> <u>12/31/09</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/10</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,890,656	\$ -	\$ -	\$ 1,890,656
Construction in progress	<u>542,261</u>	<u>156,859</u>	<u>-</u>	<u>699,120</u>
Total capital assets, not being depreciated	<u>2,432,917</u>	<u>156,859</u>	<u>-</u>	<u>2,589,776</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	498,469	9,935	-	508,404
Buildings	7,273,001	-	-	7,273,001
Machinery and equipment	2,063,859	68,696	(42,353)	2,090,202
Vehicles	2,626,339	80,760	(22,417)	2,684,682
Infrastructure	<u>8,727,490</u>	<u>253,874</u>	<u>-</u>	<u>8,981,364</u>
Total capital assets, being depreciated	<u>21,189,158</u>	<u>413,265</u>	<u>(64,770)</u>	<u>21,537,653</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(360,415)	(8,350)	-	(368,765)
Buildings	(5,535,543)	(105,582)	-	(5,641,125)
Machinery and equipment	(1,733,421)	(62,506)	-	(1,795,927)
Vehicles	(1,392,195)	(147,027)	22,417	(1,516,805)
Infrastructure	<u>(4,691,778)</u>	<u>(269,434)</u>	<u>-</u>	<u>(4,961,212)</u>
Total accumulated depreciation	<u>(13,713,352)</u>	<u>(592,899)</u>	<u>22,417</u>	<u>(14,283,834)</u>
Total capital assets, being depreciated, net	<u>7,475,806</u>	<u>(179,634)</u>	<u>(42,353)</u>	<u>7,253,819</u>
Government-type activities capital assets, net	<u>\$ 9,908,723</u>	<u>\$ (22,775)</u>	<u>\$ (42,353)</u>	<u>\$ 9,843,595</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 10 - CAPITAL ASSETS - (Continued)

	<u>Balance</u> 12/31/09	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 12/31/10
<u>Business-type activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 8,429,538	\$ -	\$ -	\$ 8,429,538
Construction in progress	<u>-</u>	<u>2,565,614</u>	<u>-</u>	<u>2,565,614</u>
Total capital assets, not being depreciated	<u>8,429,538</u>	<u>2,565,614</u>	<u>-</u>	<u>10,995,152</u>
<i>Capital assets, being depreciated:</i>				
Buildings	12,427,140	-	-	12,427,140
Machinery and equipment	2,319,247	-	-	2,319,247
Vehicles	880,214	24,000	-	904,214
Infrastructure	<u>22,295,604</u>	<u>-</u>	<u>-</u>	<u>22,295,604</u>
Total capital assets, being depreciated	<u>37,922,205</u>	<u>24,000</u>	<u>-</u>	<u>37,946,205</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(5,734,044)	(175,719)	-	(5,909,763)
Machinery and equipment	(1,895,464)	(37,275)	-	(1,932,739)
Vehicles	(520,234)	(101,858)	-	(622,092)
Infrastructure	<u>(8,129,511)</u>	<u>(392,460)</u>	<u>-</u>	<u>(8,521,971)</u>
Total accumulated depreciation	<u>(16,279,253)</u>	<u>(707,312)</u>	<u>-</u>	<u>(16,986,565)</u>
Total capital assets, being depreciated, net	<u>21,642,952</u>	<u>(683,312)</u>	<u>-</u>	<u>20,959,640</u>
Business-type activities capital assets, net	<u>\$ 30,072,490</u>	<u>\$ 1,882,302</u>	<u>\$ -</u>	<u>\$ 31,954,792</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 10 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 6,588
Security of persons and property	168,198
Public health and welfare	22,780
Transportation	342,406
Community environment	2,395
Leisure time activity	<u>50,532</u>
Total depreciation expense - governmental activities	<u>\$ 592,899</u>

Business-type activities:

Water	\$ 352,526
Sewer	<u>354,786</u>
Total depreciation expense - business-type activities	<u>\$ 707,312</u>

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the City entered into capitalized lease agreements for the acquisition of heavy equipment, including a mower, dump truck, fire truck and vehicles.

These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital assets acquired by lease have been capitalized in the governmental activities statement of net assets in the amount of \$506,529. Accumulated depreciation as of December 31, 2010 was \$120,064, leaving a current book value of \$386,465. At inception, capital lease transactions are accounted for as a capital outlay expenditure or capital asset addition and other financing source or non-operating revenue in the appropriate fund, with a corresponding liability is recorded in the governmental activities statement of net assets or enterprise fund, respectively.

Principal and interest payments in 2010 totaled \$84,791 and \$10,059, respectively, in the capital improvements fund, which is a nonmajor governmental fund.

These payments are reported as program/function expenditures on the budgetary statement.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2010:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2011	\$ 80,154
2012	<u>54,375</u>
Total future minimum lease payments	134,529
Less: amount representing interest	<u>(8,058)</u>
Present value of future minimum lease payments	<u>\$ 126,471</u>

NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS

The City accrues unpaid vacation as it is earned and certain portions of sick leave pay as payment becomes probable.

All employees except firefighters: Sick leave accumulates at the rate of 4.6 hours of sick leave for 80 hours of work completed. Sick leave is accumulated and may be converted into cash upon retirement up to 135 days. Any employee who accumulates 120 sick days (960 hours) is paid on December 31st of each year a cash payment for any accumulated sick days over 120 days but such payment shall not exceed 15 days (120 hours). Individuals leaving the employment of the City prior to retirement or at retirement lose their accumulated sick leave. A liability has been recognized in the accompanying financial statements for sick leave for only the employees who are age 50 or older, or have twenty years with local government employment.

Firefighters: Sick leave accumulates at the rate of 10 hours per month. Any firefighter who accumulates in excess of 960 hours receives a cash payment for the amount of the excess. A firefighter who retires from the department is eligible for cash payment of the sick leave balance. A liability has been recognized in the accompanying financial statements for sick leave for firefighters who are age 50 or older, or have twenty years with local government employment.

Vacation is accumulated based upon length of service as follows:

<u>Uniform Service</u>	<u>Employee Hours Earned / Bi-weekly</u>	<u>Non-Uniform Service</u>	<u>Time Off - (Hours)</u>
After 1 year	80 Hours	After 1 year	40 Hours
After 8 years	120 Hours	After 2 years	80 Hours
After 12 years	160 Hours	After 5 years	98 Hours
After 18 years	200 Hours	After 8 years	120 Hours
After 25 years	240 Hours	After 10 years	136 Hours
		After 12 years	160 Hours
		After 15 years	176 Hours
		After 18 years	200 Hours
		After 20 years	216 Hours
		After 25 years	240 Hours

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS - (Continued)

The accrued vacation and sick leave benefits have been recorded on the government-wide financial statements. The liability for vacation and sick leave is accrued in the funds from which the liability will be paid.

NOTE 13 - LONG-TERM OBLIGATIONS

A. During 2010, the following changes occurred in the City's governmental long-term obligations:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/10</u>	<u>Due Within One Year</u>
Governmental activities:							
<u>OWPC loans payable:</u>							
OPWC - Kelly Storm Sewer	05/08/98	0%	\$ 69,167	\$ -	\$ (8,137)	\$ 61,030	\$ 8,138
OPWC - Circle Drive	12/1/00	0%	16,400	-	(2,050)	14,350	4,671
OPWC - CSO#5	12/20/00	0%	14,014	-	(9,343)	4,671	2,050
OPWC - Sandusky Sewer Pump	6/9/10	0%	-	96,946	-	96,946	9,695
Total OPWC loans			<u>99,581</u>	<u>96,946</u>	<u>(19,530)</u>	<u>176,997</u>	<u>24,554</u>
<u>Special assessment bonds:</u>							
Kelly Addition	07/23/98	5.95%	219,713	-	(19,095)	200,618	20,248
Total special assessment bonds			<u>219,713</u>	<u>-</u>	<u>(19,095)</u>	<u>200,618</u>	<u>20,248</u>
<u>Other long-term obligations:</u>							
Capital lease obligations			211,262	-	(84,791)	126,471	74,378
Compensated absences payable			<u>1,241,156</u>	<u>289,891</u>	<u>(368,832)</u>	<u>1,162,215</u>	<u>379,897</u>
Total other long-term obligations			<u>1,452,418</u>	<u>289,891</u>	<u>(453,623)</u>	<u>1,288,686</u>	<u>454,275</u>
Total governmental activities			<u>\$ 1,771,712</u>	<u>\$ 386,837</u>	<u>\$ (492,248)</u>	<u>\$ 1,666,301</u>	<u>\$ 499,077</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

B. During 2010, the following changes occurred in the City's business-type activities long-term obligations.

	Issue Date	Interest Rate	Balance 12/31/09	Additions	Reductions	Balance 12/31/10	Amounts Due in One Year
Business-type activities:							
<u>General obligation bonds:</u>							
Reservoir refunding bonds	12/01/89	3.80-4.90%	\$ 260,000	\$ -	\$ (260,000)	\$ -	\$ -
Total general obligation bonds			<u>260,000</u>	<u>-</u>	<u>(260,000)</u>	<u>-</u>	<u>-</u>
<u>OWDA loans payable:</u>							
OWDA loan #3240	10/15/00	4.55%	721,665	-	(51,560)	670,105	53,991
OWDA loan #5426	11/19/09	0.00%	6,255	727,541	-	733,796	-
OWDA loan #2262	07/01/95	4.56%	2,012,616	-	(329,784)	1,682,832	344,992
OWDA loan #5702	03/16/06	3.20%	1,176,710	54,180	-	1,230,890	-
Total OWDA loans			<u>3,917,246</u>	<u>781,721</u>	<u>(381,344)</u>	<u>4,317,623</u>	<u>398,983</u>
<u>OPWC loans payable:</u>							
Fremont Street Pump Station	05/10/01	0.00%	35,095	-	(4,679)	30,416	4,679
CSO #1, Wood County	10/27/98	0.00%	17,232	-	(4,308)	12,924	4,308
Reservoir Rehabilitation	4/23/04	0.00%	44,535	-	(6,852)	37,683	6,851
Columbus Avenue CP15K	1/1/09	0.00%	91,753	-	(3,110)	88,643	3,111
Total OPWC loans			<u>188,615</u>	<u>-</u>	<u>(18,949)</u>	<u>169,666</u>	<u>18,949</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			296,702	89,659	(110,379)	275,982	113,690
Total other long-term obligations			<u>296,702</u>	<u>89,659</u>	<u>(110,379)</u>	<u>275,982</u>	<u>113,690</u>
Total business-type activities			<u>\$ 4,662,563</u>	<u>\$ 871,380</u>	<u>\$ (770,672)</u>	<u>\$ 4,763,271</u>	<u>\$ 531,622</u>

C. The Ohio Public Works Commission (OPWC) loans are general obligations of the City, and will be repaid from the City's general operating revenues. Principal and interest payments are recorded in the capital projects and enterprise funds. The OPWC loans are interest free, providing repayment remains current.

Special assessment bonds will be paid from the proceeds of special assessments levied against the property owners who are primarily benefited from the project. In the event that property owners fail to make their payments, the City is responsible for providing the resources to meet annual principal and interest payments.

On April 20, 1995, the City defeased 1993 Sewage System Refunding and Improvement Bonds in the amount of \$6,160,000 with interest rates from 3.0% to 4.6%. The amount of defeased debt outstanding at December 31, 2010 is \$1,936,415. The bonds are in an irrevocable trust with an escrow agent to provide for all future debt service payments, and considered defeased.

On December 31, 1997, the City defeased 1989 Reservoir #6 Refinanced Bonds in the amount of \$2,360,000 with interest rates from 6.45% to 7.05%. There is no defeased debt outstanding at December 31, 2010. The proceeds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

All of the enterprise debt is also general obligation debt, but it is anticipated that user charges will pay-off all the outstanding bonds.

Capital leases will be paid from the general capital improvement fund.

The compensated absences liability will be paid from the following funds:

- General fund
- Street construction, maintenance & repair fund
- Termination benefits fund
- Water fund
- Sewer fund

The OPWC loan agreements require the City to insure the project against loss or damage. Any insurance policy issued shall be so written or endorsed as to make losses, if any, payable to the OPWC. Each insurance policy shall also contain a provision that the insurance company shall not cancel the policy without first giving written notice to the OPWC at least ten days in advance of such cancellation.

The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction projects. The amounts due to the OWDA are payable solely from water and sewer fund revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2010, the City has outstanding borrowings of \$4,317,623. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. OWDA loan #5702 and #5426 are not closed out as of December 31, 2010. Future annual debt service principal and interest requirements for these loans, which have a balance of \$1,964,686 at December 31, 2010, are not available.

D. A summary of the City's future debt service requirements as of December 31, 2010 follows:

Future Payment Due In	Business-Type OWDA Loans			Business-Type OPWC Loans	Governmental OPWC Loans
	Principal	Interest	Total	Principal Only	Principal Only
2011	\$ 398,983	\$ 103,454	\$ 502,437	\$ 18,949	\$ 24,554
2012	417,439	84,998	502,437	18,949	19,882
2013	436,750	65,688	502,438	18,949	19,882
2014	456,952	45,484	502,436	14,641	19,883
2015	269,344	24,171	293,515	18,068	19,882
2016 - 2020	373,469	49,512	422,981	22,570	72,914
2021 - 2025	-	-	-	15,552	-
2026 - 2030	-	-	-	15,551	-
2031 - 2035	-	-	-	15,552	-
2036 - 2039	-	-	-	10,885	-
Total	\$ 2,352,937	\$ 373,307	\$ 2,726,244	\$ 169,666	\$ 176,997

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Future Payment <u>Due In</u>	Governmental <u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 20,248	\$ 11,639	\$ 31,887
2012	21,440	10,446	31,886
2013	22,765	9,121	31,886
2014	24,140	7,747	31,887
2015	25,597	6,289	31,886
2016 - 2018	<u>86,428</u>	<u>9,230</u>	<u>95,658</u>
Total	<u>\$ 200,618</u>	<u>\$ 54,472</u>	<u>\$ 255,090</u>

E. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2010, the City's total voted debt margin was \$17,939,548 and the unvoted debt margin was \$9,384,918; both amounts include available funds of \$22,886.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio "PEP", a risk-sharing pool available to local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006, PEP retains casualty risks up to \$350,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$13,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to an aggregate of \$10,000,000.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 14 - RISK MANAGEMENT - (Continued)

Property Coverage

Prior to January 1, 2009, Travelers reinsures specific losses exceeding \$250,000, and provides up to \$600,000,000 per occurrence. APEEP reinsures members for a specific loss exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provide aggregate stop-loss coverage based upon the combined PEP members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600,000,000 per occurrence limit.

On or after January 1, 2009, Travelers reinsures specific losses exceeding \$250,000, and provides up to \$600,000,000 per occurrence. APEEP reinsures members for a specific loss exceeding \$150,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined PEP members' total insurable values. If the stop-loss is reached by payment of losses between \$150,000 and \$500,000, Travelers will reinsure specific losses exceeding \$150,000 up to their \$600,000,000 per occurrence limit.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009:

<u>Casualty & Property Coverage</u>	<u>2010</u>	<u>2009</u>
Assets	\$34,952,010	\$36,374,898
Liabilities	<u>(14,320,812)</u>	<u>(15,256,862)</u>
Retained earnings	<u>\$20,631,198</u>	<u>\$21,118,036</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.4 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the City's share of these unpaid claims collectible in future years is approximately \$156,000.

Based on discussions with PEP the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 14 - RISK MANAGEMENT - (Continued)

<u>Contributions to PEP</u>	
2008	\$143,661
2009	\$154,504
2010	\$155,999

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

The City has elected to offer employee medical insurance benefits through a plan provided by Paramount. Employees are required to pay 10% of covered expenses to an annual maximum out-of-pocket of \$500 for single coverage and \$1,000 for family coverage. The City pays 90% of the premium for the plans. For the plan, each month the City contributes \$417.49 for single coverage and \$1,093.77 for family coverage.

Dental insurance is provided through Guardian Dental with a deductible of \$50 per person per year (\$150 family maximum per year). The City pays a \$10.90 administrative fee to Guardian Dental per month per enrolled employee and reimburses Guardian Dental for actual claims incurred.

Prescription Drug Benefits are obtained through Express Scripts. Employees are required to make a co-pay of \$5 for generic prescriptions and \$10 for brand prescriptions. The City pays a \$2.14 administrative fee to Express Scripts per prescription and reimburses Express Scripts for actual prescription costs.

Vision insurance is provided through Custom Designed Benefits. The City pays a \$1.05 administrative fee to Custom Designed Benefits per month per enrolled employee and reimburses Custom Designed Benefits for actual claims incurred.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from 2009.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 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. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension 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 that may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2010 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.5% and 11.1%, respectively.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2010 was 8.50% from January 1 through February 28, 2010 and 9.00% from March 1 through December 31, 2010. The City's contribution rate for pension benefits for members in the Combined Plan for 2010 was 9.27% from January 1 through February 28, 2010 and 9.77% from March 1 through December 31, 2010. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009, and 2008 were \$280,521, \$226,533, and \$225,322, respectively; 92.22% has been contributed for 2010, and 100% has been contributed for 2009 and 2008. Contributions to the member-directed plan for 2010 were \$1,396 made by the City and \$1,955 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 15 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2010, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$171,859 and \$201,834 for the year ended December 31, 2010, \$193,333 and \$185,648 for the year ended December 31, 2009, and \$193,708 and \$199,829 for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 74.31% has been contributed for police and 74.31% has been contributed for firefighters for 2010.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

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

Funding Policy - The post-employment healthcare plan was established under, and is administrated 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 2010, local government employers contributed 14.00% of covered payroll (17.87% for public safety and law enforcement). 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 2010 was 5.50% from January 1 through February 28, 2010 and 5.00% from March 1 through December 31, 2010. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2010 was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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, 2010, 2009, and 2008 were \$159,444, \$163,801, and \$225,322 respectively; 92.22% has been contributed for 2010 and 100% has been contributed for 2009 and 2008.

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

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

OP&F maintains funds for health care in two separate accounts, one for health care benefits under an Internal Revenue Code Section 115 trust and one for Medicare Part B reimbursements administrated 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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$90,984 and \$78,979 for the year ended December 31, 2010, \$102,353 and \$72,645 for the year ended December 31, 2009, \$102,551 and \$78,194 for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 74.31% has been contributed for police and 74.31% has been contributed for firefighters for 2010.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balances - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

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.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ (572,920)
Net adjustment for revenue accruals	(53,488)
Net adjustment for expenditure accruals	96,094
Net adjustment for other financing sources/(uses)	4,450
Adjustment for encumbrances	<u>30,687</u>
GAAP basis	<u>\$ (495,177)</u>

NOTE 18 - CONTINGENCIES

Litigation

The City is currently involved in litigation that's outcome is indeterminable.

NOTE 19 - CONDUIT DEBT

The City has issued conduit debt on behalf of the Fostoria Community Hospital for the purpose of acquiring property and equipment and for capital improvements. Fostoria Community Hospital will repay the debt through lease payments of the property financed. Upon repayment of the debt, the ownership of the acquired property transfers to the Fostoria Community Hospital. The aggregate amount on the debt outstanding as of December 31, 2010, is \$1,002,595. The City is not obligated in any manner for repayment of the debt. Accordingly, the debt is not reported as a liability in the accompanying financial statements.

NOTE 20 - FINANCIAL DIFFICULTY

During 2011, the City has experienced financial difficulty due to the slowing economy and decreasing tax values. The City continues to address the issue of declining revenues. This includes analysis and discussion of selling assets, a new tax levy, more grants, additional consolidations in staff and possibly a reduction in municipal building operating hours.

NOTE 21 - SUBSEQUENT EVENT

In July 2011, the City was selected to receive funding from the Leverage for Efficiency, Accountability and Performance Fund (LEAP Fund). These funds will be advanced to the City and used to pay for the costs of a performance audit to be conducted by the Ohio Auditor of State's Office. The savings reaped from the recommendations in the performance audit will be used to repay the advance back to the LEAP Fund.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

City of Fostoria
Seneca County
213 South Main Street
Fostoria, Ohio 44830

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County, (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *City Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting, that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-FOST-03 and 05 described in the accompanying schedule of findings to be material weaknesses.

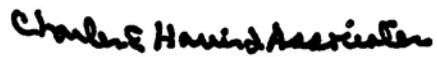
Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2010-FOST-01, 02 and 04.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 30, 2011.

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



Charles E. Harris & Associates, Inc.

August 30, 2011

CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS
December 31, 2010

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-FOST-01 Noncompliance Citation

Ohio Revised Code Section 5705.41 (B) states that no subdivision or taxing authority shall make any expenditure of money unless it has been appropriated and unless it has been appropriated as provided in such chapter. Furthermore, Ohio Administrative Code 117-2-02 states that all local public offices should integrate the budgetary accounts at the legal level of control, which is the object level for all funds.

At December 31, 2010, the following funds' expenditures plus encumbrances exceeded total appropriations:

Special Revenue Funds:

- Street Construction and Maintenance (\$76,605)
- State Highway Improvement (\$25,134)
- Police Donation (\$8,677)
- Fostoria Housing Revolving Loan (\$886)
- Tax Incentive Review Fund (\$3,073)

Capital Projects Fund:

- Infrastructure Capital Fund (\$71,892)

Enterprise Fund:

- Water Revenue Fund (\$95,410)
- Storm Water Management System (\$270,389)
- Sewer Plant Replacement (\$37,200)

The following functional line items were found to have expenditures plus encumbrances exceeding appropriations:

General Fund:

- Public Health and Welfare (\$1,012)
- Transportation (\$415)
- Transfers out (\$16)

The object level violations were not disclosed since they were cited at the functional level.

We recommend that the City better monitor their budgetary process on a monthly basis to avoid having expenditures exceed appropriations.

Management's Response:

Management is working on a more efficient and viable record keeping solution with our available resources.

**CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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FINDING NUMBER 2010-FOST-02 Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund as certified by the county budget commission. This section also provides that no appropriation measure shall become effective until the City obtains the County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

Ohio Revised Code Section 5705.36(A)(4) in part, requires subdivisions to request increased or reduced amended certificates of estimated resources upon determination by the City Auditor that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources and the deficiency will reduce the estimated resources below appropriations.

At December 31, 2010, the following funds' appropriations exceeded total estimated resources:

General Fund (\$464,472)

Special Revenue Funds:

- CHRP (\$51,003)
- Police Grant Fund (\$43,456)
- COPS More Grant Fund (\$6,996)
- Hancock County Park Grant (\$10,869)
- Fire Department Grant Fund (\$4,716)
- Airport Grant Fund (\$129,358)
- Park and Recreation Fund (\$56,242)
- Fostoria Housing Revolving Loan (\$271,750)

Enterprise Fund: Water Revenue (\$426,049)

We noted that several of these Special Revenue Funds have received grants for which the City passed an appropriation ordinance but did not amend its certificate of estimated resources to incorporate the receipt of grants. As such, appropriations for these funds exceeded estimated resources.

Moreover, for the General Fund, the actual receipts were below estimated receipts to the extent by which the shortage of actual compared to estimated receipts reduced the total estimated resources to an amount lower than the appropriations (\$64,023).

We recommend that the City monitor appropriations and estimated resources on a monthly basis. We also recommend that the City review its estimated receipts and compare these with actual receipts and appropriations and make modifications if the deficiency will reduce its appropriations below estimated resources.

Management's Response:

Management is working on a more efficient and viable record keeping solution with our available resources.

CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2010

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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FINDING NUMBER 2010-FOST-03 Material Weakness

An adequate system of controls should be capable of separately accounting for data used to support matching calculations of local share versus federal grants; and ensuring that expenditures or expenses, refunds, and cash receipts or revenue are properly classified and recorded only once; cash receipts and disbursements are recorded correctly as to account and fund; provide evidence supporting receipts and expenditures.

It was noted that the City recorded the Department of Housing and Urban Development; Community Development Block Grant (CDBG) (CFDA# 14.228) and Home Investment Partnerships Program (CFDA # 14.239) in one fund and that the local share matching for the federal grant was recorded and classified the same as the federal grant. Management made correcting adjusting entries to separate each federal programs and also separate the local matching portion.

We recommend that the City assign separate account codes and fund numbers for different federal grant projects. We also recommend that the City classify federal grants separately from the matching local share by assigning the local match with a different fund number.

Management's Response:

Management will assign specific account codes and fund numbers to each federal grant projects and local matching share.

FINDING NUMBER 2010-FOST-04 Noncompliance citation

Ohio Rev. Code Section 5705.10, Revised Code, prohibits the City from having negative cash fund balances. A negative fund cash balance implies cash from another fund was used to cover expenses of the negative fund. The General Fund had a negative cash fund balance of \$141,543 at December 31, 2010.

We recommend that the City monitor their fund balances on a monthly basis.

Management's Response:

The City will monitor fund balances on a continuous basis to avoid negative balances. Also, management has taken steps to cut costs to improve the financial condition.

**CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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FINDING NUMBER 2010-FOST-05 Material Weakness

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records. This process involves reconciling the bank balance to the cash and investment balance.

During 2010, the City closed out its books each month, however, it did not properly reconcile its fund balances to its bank balances. At the close of 2010, the City was unreconciled by \$9,172. It was determined that utility and income tax credit card payments may have contributed to the difference.

Without complete and accurate monthly bank reconciliations, the City's internal control is weakened, which could hinder the detection of errors or irregularities by the City's management in a timely manner. Also, the condition may have led to the city making financial decisions with inaccurate fund balances.

The financial statements and the City's records have been adjusted accordingly.

The City should perform and complete monthly bank reconciliations in a timely manner. Also, a copy of each monthly bank reconciliation and the listing of outstanding checks should be filed in the bank activity folder along with the bank statements and supporting documents for the applicable month. The City Finance Director should sign and date the bank reconciliations to indicate that they have been reviewed and approved.

Management's Response:

Management has taken steps to ensure bank reconciliations are performed timely and accurately.

**CITY OF FOSTORIA
SENECA COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2010**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-FOST-01	Ohio Revised Code Section 5705.41 (B) - Expenditures Exceeded Appropriations	No	Repeated as 2010- FOST-01
2009-FOST-02	Ohio Revised Code Section 5705.39 - Total Appropriations Exceeded Estimated Resources	No	Repeated as 2010- FOST-02
2009-FOST-03	Ohio Revised Code Section 5705.36(A)(4) Amending estimated resources	No	Repeated as 2010- FOST-02
2009-FOST-04	Classification of funds	No	Repeated as 2010- FOST-03

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Dave Yost • Auditor of State

CITY OF FOSTORIA

SENECA 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 10, 2011