

CITY OF FOSTORIA

SENECA COUNTY

Audit Report

For the Year Ended December 31, 2008

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



Mary Taylor, CPA
Auditor of State

Members of City Council
City of Fostoria
213 South Main Street
Fostoria, Ohio 44830

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, 2008 through December 31, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 8, 2010

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CITY OF FOSTORIA
 SENECA COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2008

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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, 2008, 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, 2008, 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 October 16, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fostoria's basic financial statements. The accompanying schedule of federal awards expenditures is presented for the purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information as been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Charles E. Harris & Associates, Inc.

October 16, 2009

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2008 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, 2008. 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 2008 are as follows:

- The total net assets of the City increased \$1,502,545. Net assets of governmental activities increased \$277,374 or 1.90% over 2007 and net assets of business-type activities increased \$1,225,171 or 4.63% over 2007.
- General revenues accounted for \$8,232,614 or 77.45% of total governmental activities revenue. Program specific revenues accounted for \$2,396,820 or 22.55% of total governmental activities revenue.
- The City had \$10,352,060 in expenses related to governmental activities; \$2,396,820 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 \$8,232,614 were adequate to cover the remaining expenses of the governmental activities of \$7,955,240.
- The general fund had revenues and other financing sources of \$8,208,994 in 2008. This represents a decrease of \$252,241 from 2007 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$8,516,546 in 2008, increased \$101,677 from 2007. The net decrease in fund balance for the general fund was \$307,552 or 18.95%.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2008 by \$1,225,171. This increase in net assets was due primarily to charges for services and other operating income being sufficient to cover expenses.
- In the general fund, the actual revenues were \$308,376 more than in the final budget and actual expenditures and other financing uses were \$880,258 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources stayed the same from the original to the final budget. Budgeted expenditures and other financing uses increased \$1,527,453 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, 2008 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 2008?" 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, 2008
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 25-28 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 29-30 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 31-65 of this report.

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
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Government-Wide Financial Analysis

The table below provides a summary of the City's net assets at December 31, 2008 and December 31, 2007. The net assets of the governmental activities and business-type activities at December 31, 2007 have been restated as described in Note.3.D.

	Net Assets					
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	Restated		Restated			
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>Assets</u>						
Current and other assets	\$ 8,654,438	\$ 8,845,925	\$ 2,753,295	\$ 1,843,582	\$ 11,407,733	\$ 10,689,507
Capital assets, net	<u>9,819,664</u>	<u>9,286,423</u>	<u>30,562,611</u>	<u>30,637,988</u>	<u>40,382,275</u>	<u>39,924,411</u>
Total assets	<u>18,474,102</u>	<u>18,132,348</u>	<u>33,315,906</u>	<u>32,481,570</u>	<u>51,790,008</u>	<u>50,613,918</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,934,764	1,998,469	4,999,433	5,268,589	6,934,197	7,267,058
Other liabilities	<u>1,675,452</u>	<u>1,547,367</u>	<u>602,678</u>	<u>724,357</u>	<u>2,278,130</u>	<u>2,271,724</u>
Total liabilities	<u>3,610,216</u>	<u>3,545,836</u>	<u>5,602,111</u>	<u>5,992,946</u>	<u>9,212,327</u>	<u>9,538,782</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	9,022,180	8,493,923	25,841,441	25,673,821	34,863,621	34,167,744
Restricted	4,477,746	4,610,821	-	-	4,477,746	4,610,821
Unrestricted	<u>1,363,960</u>	<u>1,481,768</u>	<u>1,872,354</u>	<u>814,803</u>	<u>3,236,314</u>	<u>2,296,571</u>
Total net assets	<u>\$ 14,863,886</u>	<u>\$ 14,586,512</u>	<u>\$ 27,713,795</u>	<u>\$ 26,488,624</u>	<u>\$ 42,577,681</u>	<u>\$ 41,075,136</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2008, the City's assets exceeded liabilities by \$42,577,681. At year-end, net assets were \$14,863,886 and \$27,713,795 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 77.97% 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, 2008, were \$9,022,180 and \$25,841,441 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.

As of December 31, 2008, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$4,477,746, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,363,960 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED**

The table below shows the changes in net assets for 2008 and 2007. The net assets of the governmental activities and business-type activities at December 31, 2007 have been restated as described in Note.3.D.

	Change in Net Assets					
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2008</u>	Restated <u>2007</u>	<u>2008</u>	Restated <u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program revenues:						
Charges for services	\$ 769,685	\$ 808,269	\$ 6,288,629	\$ 4,027,732	\$ 7,058,314	\$ 4,836,001
Operating grants and contributions	1,627,135	1,295,706	-	-	1,627,135	1,295,706
Capital grants and contributions	-	6,149	-	-	-	6,149
Total program revenues	<u>2,396,820</u>	<u>2,110,124</u>	<u>6,288,629</u>	<u>4,027,732</u>	<u>8,685,449</u>	<u>6,137,856</u>
General revenues:						
Property taxes	970,259	719,277	-	-	970,259	719,277
Income taxes	6,040,250	6,137,643	-	-	6,040,250	6,137,643
Unrestricted grants and entitlements	576,439	551,215	-	-	576,439	551,215
Investment earnings	138,740	273,827	-	-	138,740	273,827
Refunds and reimbursements	295,057	238,204	133,643	773,956	428,700	1,012,160
Miscellaneous	211,869	112,722	21,606	19,848	233,475	132,570
Total general revenues	<u>8,232,614</u>	<u>8,032,888</u>	<u>155,249</u>	<u>793,804</u>	<u>8,387,863</u>	<u>8,826,692</u>
Total revenues	<u>10,629,434</u>	<u>10,143,012</u>	<u>6,443,878</u>	<u>4,821,536</u>	<u>17,073,312</u>	<u>14,964,548</u>
Expenses:						
General government	1,968,779	1,764,308	-	-	1,968,779	1,764,308
Security of persons and property	5,782,446	5,710,825	-	-	5,782,446	5,710,825
Public health and welfare	326,076	251,450	-	-	326,076	251,450
Transportation	1,520,923	1,392,724	-	-	1,520,923	1,392,724
Community environment	459,706	1,001,329	-	-	459,706	1,001,329
Leisure time activity	256,374	179,015	-	-	256,374	179,015
Other	320	16,022	-	-	320	16,022
Interest and fiscal charges	37,436	29,707	-	-	37,436	29,707
Water	-	-	2,638,368	2,672,525	2,638,368	2,672,525
Sewer	-	-	2,580,339	2,439,611	2,580,339	2,439,611
Total expenses	<u>10,352,060</u>	<u>10,345,380</u>	<u>5,218,707</u>	<u>5,112,136</u>	<u>15,570,767</u>	<u>15,457,516</u>
Transfers	-	(4,309)	-	4,309	-	-
Change in net assets	277,374	(206,677)	1,225,171	(286,291)	1,502,545	(492,968)
Net assets at						
beginning of year (restated)	<u>14,586,512</u>	<u>14,793,189</u>	<u>26,488,624</u>	<u>26,774,915</u>	<u>41,075,136</u>	<u>41,568,104</u>
Net assets at end of year	<u>\$ 14,863,886</u>	<u>\$ 14,586,512</u>	<u>\$ 27,713,795</u>	<u>\$ 26,488,624</u>	<u>\$ 42,577,681</u>	<u>\$ 41,075,136</u>

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED**

Governmental Activities

Governmental activities net assets increased \$277,374 in 2008.

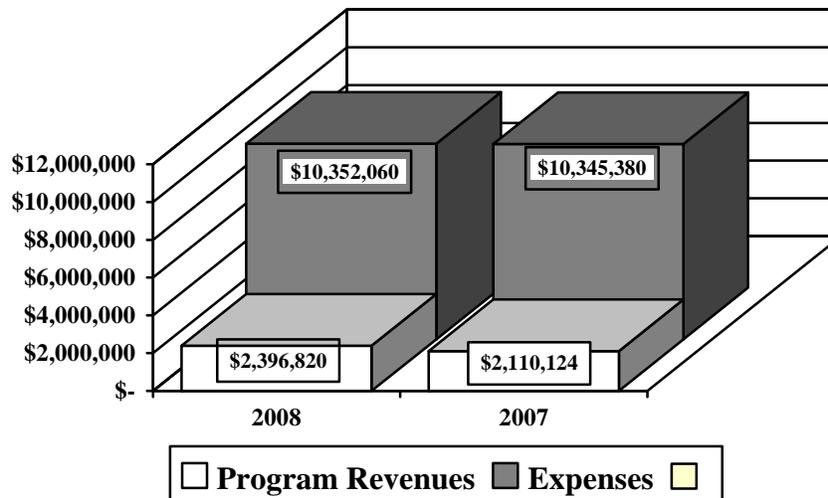
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,782,446 of the total expenses of the City. These expenses were partially funded by \$367,906 in direct charges to users of the services and \$7,277 in operating grants and contributions. Transportation expenses totaled \$1,520,923. Transportation expenses were partially funded by \$26,391 in direct charges to users of the services and \$1,448,407 in operating grants and contributions.

The state and federal government contributed to the City a total of \$1,627,135 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$1,448,407 subsidized transportation programs, \$153,426 subsidized community environment programs and \$7,277 subsidized security of persons and property activities.

General revenues totaled \$8,232,614, and amounted to 77.45% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$7,010,509. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$576,439.

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

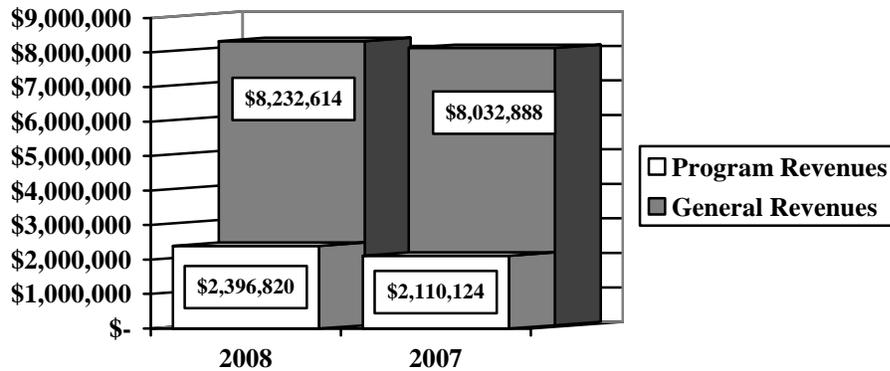
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED**

Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Program Expenses:				
General government	\$ 1,968,779	\$ 1,718,182	\$ 1,764,308	\$ 1,434,324
Security of persons and property	5,782,446	5,407,263	5,710,825	5,378,326
Public health and welfare	326,076	229,732	251,450	184,342
Transportation	1,520,923	46,125	1,392,724	656,804
Community environment	459,706	268,559	1,001,329	365,394
Leisure time activity	256,374	253,819	179,015	177,360
Other	320	(5,876)	16,022	8,999
Interest and fiscal charges	37,436	37,436	29,707	29,707
Total	\$ 10,352,060	\$ 7,955,240	\$ 10,345,380	\$ 8,235,256

The dependence upon general revenues for governmental activities is apparent, with 76.93% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



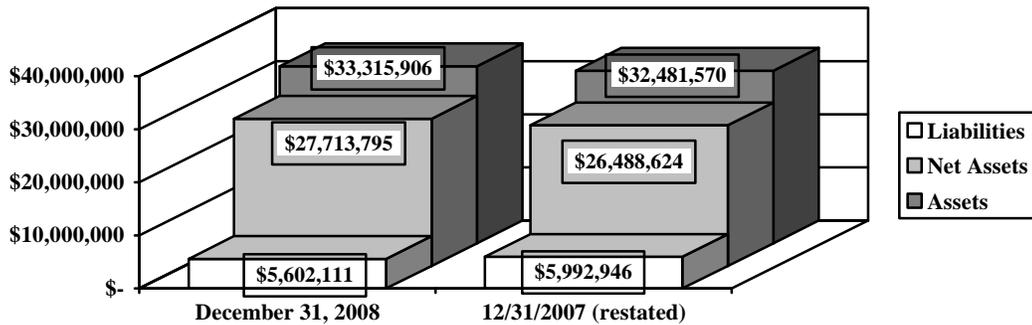
CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED

Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$6,288,629, general revenues of \$155,249 and expenses of \$5,218,707 for 2008. 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 \$5,241,844 which is \$623,770 less than last year's total of \$5,865,614. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2008 for all major and nonmajor governmental funds.

	Fund Balances	Fund Balances	
	<u>12/31/08</u>	<u>12/31/07</u>	<u>(Decrease)</u>
Major funds:			
General	\$ 1,315,397	\$ 1,622,949	\$ (307,552)
Other nonmajor governmental funds	<u>3,926,447</u>	<u>4,242,665</u>	<u>(316,218)</u>
Total	<u>\$ 5,241,844</u>	<u>\$ 5,865,614</u>	<u>\$ (623,770)</u>

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED

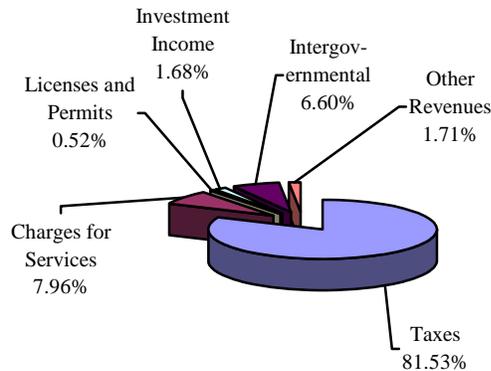
General Fund

The City's general fund balance decreased \$307,552, primarily due to an increase in general government and security of persons and property expenses. The table that follows assists in illustrating the revenues of the general fund.

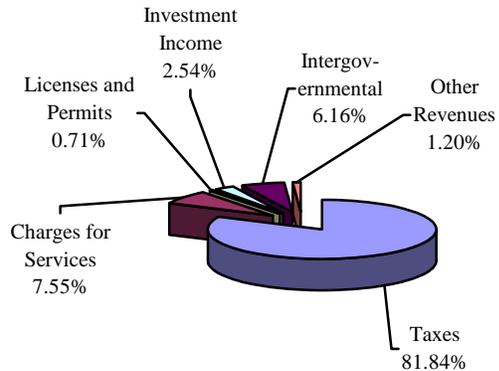
	2008	2007	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
Revenues			
Taxes	\$ 6,679,959	\$ 6,899,913	(3.19) %
Charges for services	652,441	636,778	2.46 %
Licenses and permits	42,521	59,734	(28.82) %
Investment income	137,877	214,406	(35.69) %
Intergovernmental	540,788	518,968	4.20 %
Refunds and reimbursements	34,988	14,123	147.74 %
Other	<u>104,791</u>	<u>87,454</u>	19.82 %
Total	<u>\$ 8,193,365</u>	<u>\$ 8,431,376</u>	(2.82) %

Tax revenue represents 81.53% of all general fund revenue. Tax revenue decreased by 3.19% over prior year. Investment income decreased 35.69% due to a decrease in the amount held by the City in interest-bearing investment accounts and interest rates. Licenses and permits decreased 28.82%. All other revenue remained comparable to 2007.

Revenues – 2008



Revenues –2007



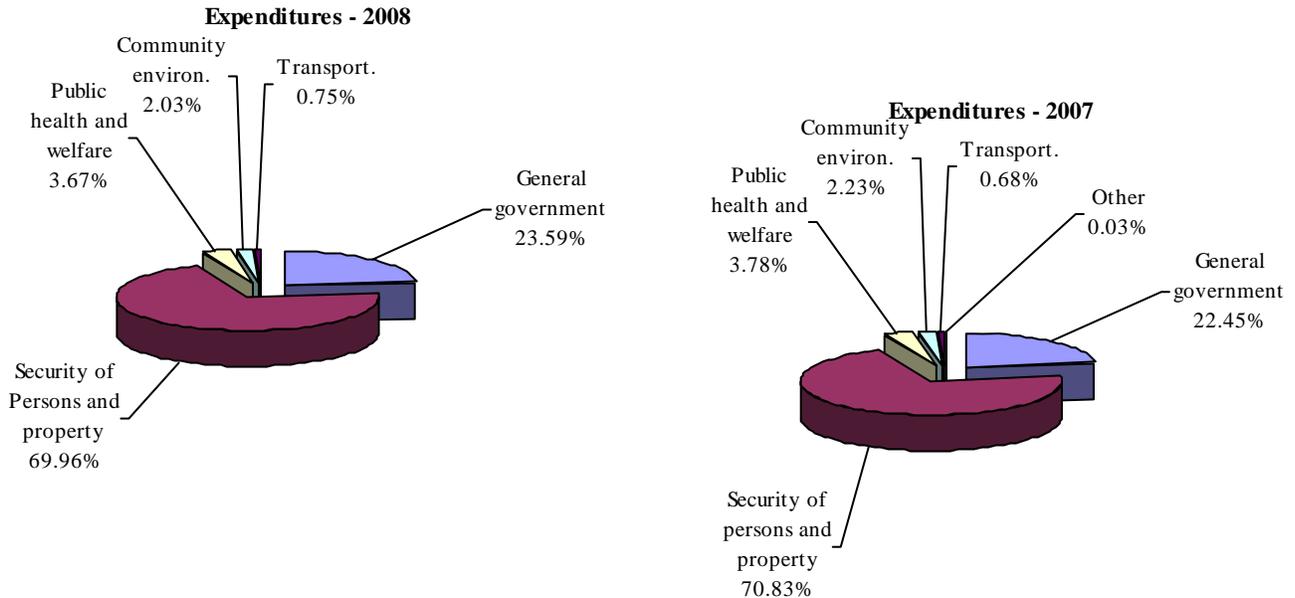
CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED**

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

	2008	2007	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,752,907	\$ 1,613,935	8.61 %
Security of persons and property	5,199,575	5,091,215	2.13 %
Public health and welfare	271,839	271,707	0.05 %
Transportation	55,881	48,646	14.87 %
Community environment	150,921	160,509	(5.97) %
Other	-	2,457	(100.00) %
Total	<u>\$ 7,431,123</u>	<u>\$ 7,188,469</u>	3.38 %

The largest expenditure line item, security of persons and property, increased 2.13%, which is primarily attributed to wage and benefit increases. All expenditures remained comparable to 2007.



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.

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED

In the general fund, the actual revenues were \$308,376 more than in the final budget and actual expenditures and other financing uses were \$880,258 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources stayed the same from the original to the final budget. Budgeted expenditures and other financing uses increased \$1,527,453 from the original to the final budget.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds 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 2008, the City had \$40,382,275 (net of accumulated depreciation) invested in land, land improvements, buildings, machinery and equipment, vehicles and infrastructure. Of this total, \$9,819,664 was reported in governmental activities and \$30,562,611 was reported in business-type activities. The following table shows December 31, 2008 balances compared to December 31, 2007. The capital assets of the governmental activities and business-type activities at December 31, 2007 have been restated as described in Note.3.D.

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

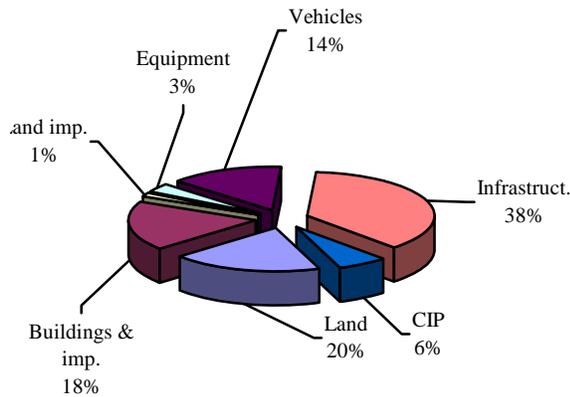
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
		Restated		Restated		Restated
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 1,890,656	\$ 1,890,656	\$ 8,429,538	\$ 8,374,270	\$ 10,320,194	\$ 10,264,926
Land improvements	146,961	156,373	-	-	146,961	156,373
Buildings	1,779,074	1,838,956	6,868,815	7,044,534	8,647,889	8,883,490
Machinery and equipment	338,423	277,716	276,233	309,768	614,656	587,484
Vehicles	1,406,595	1,442,960	460,743	474,016	1,867,338	1,916,976
Infrastructure	3,641,406	3,679,762	14,527,282	14,435,400	18,168,688	18,115,162
Construction in progress	<u>616,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>616,549</u>	<u>-</u>
Totals	<u>\$ 9,819,664</u>	<u>\$ 9,286,423</u>	<u>\$ 30,562,611</u>	<u>\$ 30,637,988</u>	<u>\$ 40,382,275</u>	<u>\$ 39,924,411</u>

CITY OF FOSTORIA, OHIO

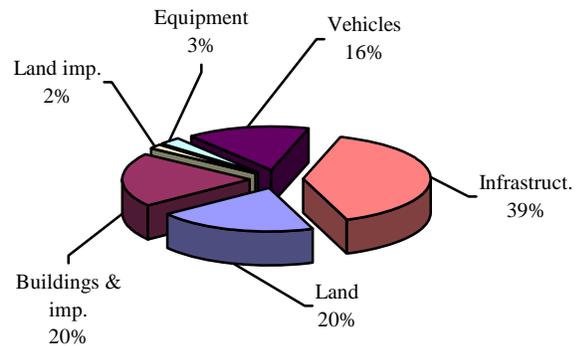
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008
UNAUDITED**

The following graphs show the breakdown of governmental capital assets by category for 2008 and 2007.

**Capital Assets - Governmental Activities
2008**



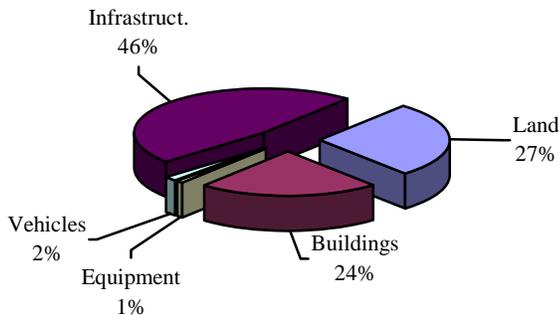
**Capital Assets - Governmental Activities
2007 (restated)**



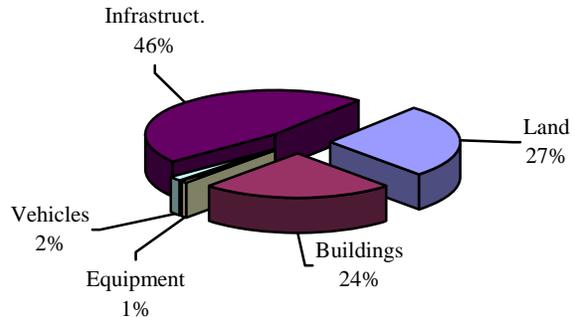
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 38% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2008 and 2007.

Capital Assets - Business-Type Activities 2008



**Capital Assets - Business-Type Activities 2007
(restated)**



CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008
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 46% 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, 2008 and 2007:

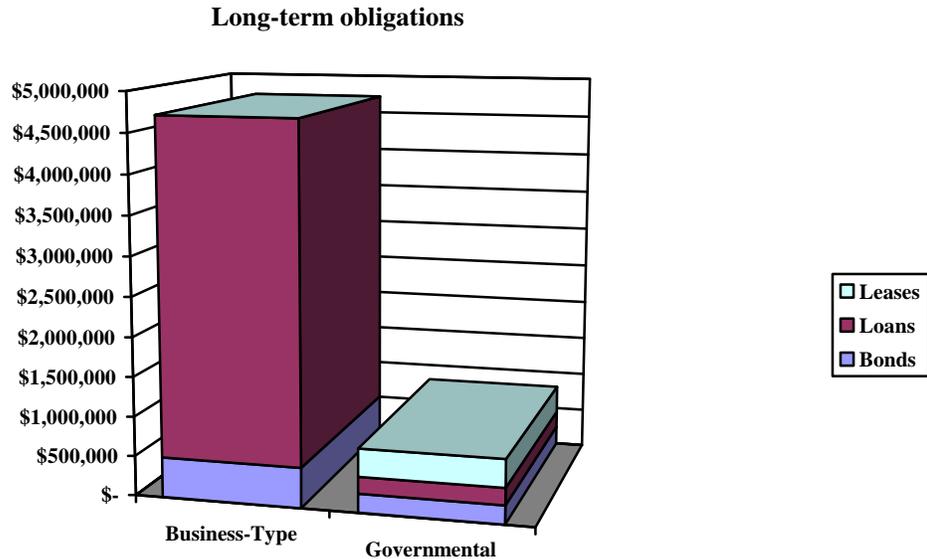
	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
OPWC loans	\$ 212,419	\$ 138,640
Capital lease payable	347,345	384,198
Special assessment bonds	<u>237,720</u>	<u>269,662</u>
Total long-term obligations	<u>\$ 797,484</u>	<u>\$ 792,500</u>

	<u>Business-Type Activities</u>	
	<u>2008</u>	<u>2007</u>
General obligation bonds	\$ 505,000	\$ 740,000
OPWC loans	112,701	128,541
OWDA loans	4,103,469	4,064,043
Capital lease payable	<u>-</u>	<u>54,737</u>
Total long-term obligations	<u>\$ 4,721,170</u>	<u>\$ 4,987,321</u>

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008 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 2009 budget.

These economic factors were considered in preparing the City's budget for fiscal year 2009. Budgeted revenues and other financing sources in the general fund for fiscal year 2009 budget are \$7,791,142. 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
FOR THE YEAR ENDED DECEMBER 31, 2008

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents.	\$ 3,424,547	\$ 1,677,636	\$ 5,102,183
Cash and cash equivalents with fiscal agent	12,959	-	12,959
Cash in segregated accounts	40,441	-	40,441
Receivables (net of allowances for uncollectibles):			
Income taxes	1,501,273	-	1,501,273
Real and other taxes	844,892	-	844,892
Accounts	70,084	1,026,201	1,096,285
Accrued interest	3,827	-	3,827
Due from other governments	893,161	-	893,161
Special assessments	318,863	-	318,863
Loans.	1,476,842	-	1,476,842
Materials and supplies inventory.	67,549	38,273	105,822
Unamortized bond issue costs	-	2,114	2,114
Deferred charges	-	9,071	9,071
Capital assets:			
Land and construction in progress	2,507,205	8,429,538	10,936,743
Depreciable capital assets, net	7,312,459	22,133,073	29,445,532
Total capital assets, net	<u>9,819,664</u>	<u>30,562,611</u>	<u>40,382,275</u>
Total assets.	<u>18,474,102</u>	<u>33,315,906</u>	<u>51,790,008</u>
Liabilities:			
Accounts payable.	279,529	122,370	401,899
Accrued wages and benefits	156,765	70,687	227,452
Due to other governments	245,166	100,636	345,802
Pension obligation payable.	197,621	56,368	253,989
Unearned revenue	790,000	-	790,000
Accrued interest payable.	6,371	252,617	258,988
Long-term liabilities:			
Due within one year	672,244	765,917	1,438,161
Due in more than one year	1,262,520	4,233,516	5,496,036
Total liabilities	<u>3,610,216</u>	<u>5,602,111</u>	<u>9,212,327</u>
Net assets:			
Invested in capital assets, net of related debt	9,022,180	25,841,441	34,863,621
Restricted for:			
Capital projects.	1,166,343	-	1,166,343
Debt service	19,355	-	19,355
Security of persons and property.	16,146	-	16,146
Transportation projects.	525,215	-	525,215
Revolving loans	1,986,778	-	1,986,778
Public health and welfare.	158,384	-	158,384
Community environment programs.	353,582	-	353,582
Leisure time programs	22,026	-	22,026
Perpetual care:			
Expendable.	4,564	-	4,564
Nonexpendable	20,000	-	20,000
Other purposes	205,353	-	205,353
Unrestricted.	<u>1,363,960</u>	<u>1,872,354</u>	<u>3,236,314</u>
Total net assets	<u>\$ 14,863,886</u>	<u>\$ 27,713,795</u>	<u>\$ 42,577,681</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
General government	\$ 1,968,779	\$ 250,597	\$ -
Security of persons and property.	5,782,446	367,906	7,277
Public health and welfare	326,076	78,819	17,525
Transportation	1,520,923	26,391	1,448,407
Community environment.	459,706	37,721	153,426
Leisure time activity.	256,374	2,055	500
Other	320	6,196	-
Interest and fiscal charges	37,436	-	-
	<hr/>	<hr/>	<hr/>
Total governmental activities	10,352,060	769,685	1,627,135
	<hr/>	<hr/>	<hr/>
Business-Type Activities:			
Water	2,638,368	3,026,497	-
Sewer	2,580,339	3,262,132	-
	<hr/>	<hr/>	<hr/>
Total business-type activities	5,218,707	6,288,629	-
	<hr/>	<hr/>	<hr/>
Total primary government.	<u>\$ 15,570,767</u>	<u>\$ 7,058,314</u>	<u>\$ 1,627,135</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.

Change in net assets.

Net assets at beginning of year (restated)

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (1,718,182)	\$ -	\$ (1,718,182)
(5,407,263)	-	(5,407,263)
(229,732)	-	(229,732)
(46,125)	-	(46,125)
(268,559)	-	(268,559)
(253,819)	-	(253,819)
5,876	-	5,876
(37,436)	-	(37,436)
<u>(7,955,240)</u>	<u>-</u>	<u>(7,955,240)</u>
-	388,129	388,129
-	681,793	681,793
-	1,069,922	1,069,922
<u>(7,955,240)</u>	<u>1,069,922</u>	<u>(6,885,318)</u>
843,672	-	843,672
126,587	-	126,587
6,040,250	-	6,040,250
576,439	-	576,439
138,740	-	138,740
295,057	133,643	428,700
211,869	21,606	233,475
<u>8,232,614</u>	<u>155,249</u>	<u>8,387,863</u>
277,374	1,225,171	1,502,545
<u>14,586,512</u>	<u>26,488,624</u>	<u>41,075,136</u>
<u>\$ 14,863,886</u>	<u>\$ 27,713,795</u>	<u>\$ 42,577,681</u>

CITY OF FOSTORIA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,043,580	\$ 2,380,967	\$ 3,424,547
Cash and cash equivalents with fiscal agent	-	12,959	12,959
Cash in segregated accounts	40,441	-	40,441
Receivables (net of allowance for uncollectibles):			
Income taxes.	1,501,273	-	1,501,273
Real and other taxes.	716,959	127,933	844,892
Accounts	70,084	-	70,084
Accrued interest	3,764	63	3,827
Due from other governments.	311,865	581,296	893,161
Special assessments.	-	318,863	318,863
Loans.	-	1,476,842	1,476,842
Interfund loan receivable.	28,282	10,000	38,282
Materials and supplies inventory	-	67,549	67,549
Total assets	<u>\$ 3,716,248</u>	<u>\$ 4,976,472</u>	<u>\$ 8,692,720</u>
Liabilities:			
Accounts payable	\$ 91,224	\$ 188,305	\$ 279,529
Accrued wages and benefits.	148,531	8,234	156,765
Interfund loan payable.	-	38,282	38,282
Due to other governments.	227,635	17,531	245,166
Pension obligation payable	192,321	5,300	197,621
Unearned revenue	670,000	120,000	790,000
Deferred revenue	1,071,140	672,373	1,743,513
Total liabilities	<u>2,400,851</u>	<u>1,050,025</u>	<u>3,450,876</u>
Fund Balances:			
Reserved for encumbrances.	1,181	279,347	280,528
Reserved for materials and supplies inventory	-	67,549	67,549
Reserved for loans	-	1,476,842	1,476,842
Reserved for perpetual care	-	20,000	20,000
Reserved for debt service.	-	22,886	22,886
Unreserved, undesignated, reported in:			
General fund.	1,314,216	-	1,314,216
Special revenue funds.	-	1,324,673	1,324,673
Capital projects funds.	-	730,586	730,586
Permanent fund	-	4,564	4,564
Total fund balances	<u>1,315,397</u>	<u>3,926,447</u>	<u>5,241,844</u>
Total liabilities and fund balances.	<u>\$ 3,716,248</u>	<u>\$ 4,976,472</u>	<u>\$ 8,692,720</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, 2008

Total governmental fund balances		\$ 5,241,844
<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.		9,819,664
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 52,228	
Income taxes	854,764	
Special assessments	318,863	
Intergovernmental revenues	515,318	
Accrued interest	2,340	
Total		1,743,513
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(6,371)
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	237,720	
Capital lease payable	347,345	
Compensated absences payable	1,137,280	
OPWC loans payable	212,419	
Total		(1,934,764)
Net assets of governmental activities		\$ 14,863,886

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, 2008

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Municipal income taxes	\$ 5,829,973	\$ -	\$ 5,829,973
Property and other taxes	849,986	126,696	976,682
Charges for services	652,441	6,336	658,777
Licenses and permits	42,521	-	42,521
Fines and forfeitures	8,706	43,247	51,953
Intergovernmental	540,788	1,447,439	1,988,227
Special assessments	-	62,475	62,475
Investment income	137,877	49,007	186,884
Rental income	-	1,915	1,915
Refunds and reimbursements	34,988	260,069	295,057
Contributions and donations	-	3,275	3,275
Other	96,085	131,396	227,481
Total revenues	<u>8,193,365</u>	<u>2,131,855</u>	<u>10,325,220</u>
Expenditures:			
Current:			
General government	1,752,907	160,464	1,913,371
Security of persons and property	5,199,575	312,427	5,512,002
Public health and welfare	271,839	39,627	311,466
Transportation	55,881	1,284,000	1,339,881
Community environment	150,921	305,699	456,620
Leisure time activity	-	203,995	203,995
Other	-	320	320
Capital outlay	-	1,194,528	1,194,528
Debt service:			
Principal retirement	-	222,172	222,172
Interest and fiscal charges	-	37,420	37,420
Total expenditures	<u>7,431,123</u>	<u>3,760,652</u>	<u>11,191,775</u>
Excess (deficiency) of revenues over (under) expenditures	<u>762,242</u>	<u>(1,628,797)</u>	<u>(866,555)</u>
Other financing sources (uses):			
Capital lease transaction	-	133,848	133,848
Sale of capital assets	15,629	-	15,629
Transfers in	-	1,085,423	1,085,423
Transfers (out)	(1,085,423)	-	(1,085,423)
Proceeds from loans	-	93,308	93,308
Total other financing sources (uses)	<u>(1,069,794)</u>	<u>1,312,579</u>	<u>242,785</u>
Net change in fund balances	(307,552)	(316,218)	(623,770)
Fund balances at beginning of year	<u>1,622,949</u>	<u>4,242,665</u>	<u>5,865,614</u>
Fund balances at end of year	<u>\$ 1,315,397</u>	<u>\$ 3,926,447</u>	<u>\$ 5,241,844</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, 2008

Net change in fund balances - total governmental funds \$ (623,770)

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	\$ 1,185,849	
Depreciation expense	<u>(638,352)</u>	
Total		547,497

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. (14,256)

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

Property taxes	(6,423)	
Income taxes	210,277	
Special assessments	(47,956)	
Intergovernmental	148,856	
Interest	<u>(540)</u>	
Total		304,214

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. 222,172

Proceeds of capital leases are reported as revenue in the governmental funds, but increase long-term liabilities in the statement of activities. (133,848)

Proceeds of loans are reported as revenue in the governmental funds, but increase long-term liabilities in the statement of activities. (93,308)

In the statement of activities, interest is accrued on outstanding bonds and leases, whereas in governmental funds an interest expenditure is reported when due. (16)

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. 68,689

Change in net assets of governmental activities \$ 277,374

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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 5,750,000	\$ 5,750,000	\$ 5,805,335	\$ 55,335
Property and other taxes	812,600	812,600	850,715	38,115
Charges for services	598,890	598,890	650,650	51,760
Licenses and permits.	41,625	41,625	41,290	(335)
Fines and forfeitures.	12,700	12,700	8,706	(3,994)
Intergovernmental	456,127	456,127	547,984	91,857
Investment income	50,050	50,050	131,014	80,964
Refunds and reimbursements.	71,000	71,000	34,988	(36,012)
Other	25,000	24,950	55,686	30,736
Total revenues.	<u>7,817,992</u>	<u>7,817,942</u>	<u>8,126,368</u>	<u>308,426</u>
Expenditures:				
Current:				
General government:				
Legislative and executive.	1,060,496	1,940,099	906,125	1,033,974
Judicial.	481,876	492,525	491,816	709
Security of persons and property	4,855,046	5,410,941	5,154,559	256,382
Public health and welfare.	305,903	292,215	267,732	24,483
Transportation	50,822	53,286	53,642	(356)
Community environment	202,224	172,962	179,016	(6,054)
Total expenditures	<u>6,956,367</u>	<u>8,362,028</u>	<u>7,052,890</u>	<u>1,309,138</u>
Excess of revenues over expenditures.	<u>861,625</u>	<u>(544,086)</u>	<u>1,073,478</u>	<u>1,617,564</u>
Other financing (uses):				
Transfers (out).	(930,328)	(920,000)	(1,485,423)	(565,423)
Total other financing (uses).	<u>(930,328)</u>	<u>(920,000)</u>	<u>(1,485,423)</u>	<u>(565,423)</u>
Net change in fund balance	(68,703)	(1,464,086)	(411,945)	1,052,141
Fund balance at beginning of year.	1,279,637	1,279,637	1,279,637	-
Prior year encumbrances appropriated	<u>87,554</u>	<u>87,554</u>	<u>87,554</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 1,298,488</u>	<u>\$ (96,895)</u>	<u>\$ 955,246</u>	<u>\$ 1,052,141</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF FOSTORIA, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Business-Type Activities -Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 514,824	\$ 1,162,812	\$ 1,677,636
Receivables (net of allowance for uncollectibles):			
Accounts	523,767	502,434	1,026,201
Materials and supplies inventory	21,720	16,553	38,273
Unamortized bond issue costs	2,114	-	2,114
Deferred charges.	9,071	-	9,071
Total current assets	<u>1,071,496</u>	<u>1,681,799</u>	<u>2,753,295</u>
Noncurrent assets:			
Capital assets:			
Land and construction in progress.	8,121,300	308,238	8,429,538
Depreciable capital assets, net	8,916,260	13,216,813	22,133,073
Total capital assets, net	<u>17,037,560</u>	<u>13,525,051</u>	<u>30,562,611</u>
Total assets.	<u>18,109,056</u>	<u>15,206,850</u>	<u>33,315,906</u>
Liabilities:			
Current liabilities:			
Accounts payable	63,343	59,027	122,370
Accrued wages and benefits.	33,627	37,060	70,687
Due to other governments.	43,652	56,984	100,636
Pension obligation payable	26,635	29,733	56,368
Accrued interest payable	68,952	183,665	252,617
Current portion of compensated absences	69,735	70,861	140,596
Current portion of refunding bonds.	245,000	-	245,000
Current portion of OWDA loans	49,239	315,243	364,482
Current portion of OPWC loans	6,851	8,988	15,839
Total current liabilities	<u>607,034</u>	<u>761,561</u>	<u>1,368,595</u>
Long-term liabilities:			
Refunding bonds	260,000	-	260,000
OWDA loans.	721,665	3,017,322	3,738,987
OPWC loans	44,535	52,327	96,862
Compensated absences.	68,282	69,385	137,667
Total long-term liabilities.	<u>1,094,482</u>	<u>3,139,034</u>	<u>4,233,516</u>
Total liabilities	<u>1,701,516</u>	<u>3,900,595</u>	<u>5,602,111</u>
Net assets:			
Invested in capital assets, net of related debt. . . .	15,710,270	10,131,171	25,841,441
Unrestricted	697,270	1,175,084	1,872,354
Total net assets	<u>\$ 16,407,540</u>	<u>\$ 11,306,255</u>	<u>27,713,795</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 3,026,497	\$ 3,262,132	\$ 6,288,629
Refunds and reimbursements	-	133,643	133,643
Other	19,556	2,050	21,606
	<u>3,046,053</u>	<u>3,397,825</u>	<u>6,443,878</u>
Total operating revenues			
	<u>3,046,053</u>	<u>3,397,825</u>	<u>6,443,878</u>
Operating expenses:			
Personal services	1,298,752	1,235,420	2,534,172
Contract services	238,252	380,884	619,136
Materials and supplies	407,490	134,283	541,773
Utilities	234,368	317,033	551,401
Depreciation	342,328	340,683	683,011
Other	9,665	-	9,665
	<u>2,530,855</u>	<u>2,408,303</u>	<u>4,939,158</u>
Total operating expenses			
	<u>2,530,855</u>	<u>2,408,303</u>	<u>4,939,158</u>
Operating income	<u>515,198</u>	<u>989,522</u>	<u>1,504,720</u>
Nonoperating expenses:			
Other nonoperating expenses	(1,256)	-	(1,256)
Interest expense and fiscal charges	(106,257)	(172,036)	(278,293)
	<u>(107,513)</u>	<u>(172,036)</u>	<u>(279,549)</u>
Total nonoperating expenses			
	<u>(107,513)</u>	<u>(172,036)</u>	<u>(279,549)</u>
Changes in net assets	407,685	817,486	1,225,171
Net assets at beginning of year (restated)	<u>15,999,855</u>	<u>10,488,769</u>	<u>26,488,624</u>
Net assets at end of year	<u>\$ 16,407,540</u>	<u>\$ 11,306,255</u>	<u>\$ 27,713,795</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, 2008

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 2,815,164	\$ 3,051,859	\$ 5,867,023
Cash received from refunds and reimbursements . . .	-	133,643	133,643
Cash received from other operations.	19,556	2,050	21,606
Cash payments for personal services	(1,263,928)	(1,187,055)	(2,450,983)
Cash payments for contract services	(242,670)	(400,327)	(642,997)
Cash payments for materials and supplies	(404,467)	(421,621)	(826,088)
Cash payments for utilities.	(223,919)	(299,688)	(523,607)
Cash payments for other expenses.	(9,665)	-	(9,665)
	<u>690,071</u>	<u>878,861</u>	<u>1,568,932</u>
Net cash provided by operating activities.			
Cash flows from noncapital financing activities:			
Other non-capital expenses	(1,256)	-	(1,256)
Net cash (used in) noncapital financing activities	<u>(1,256)</u>	<u>-</u>	<u>(1,256)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(142,008)	(465,626)	(607,634)
Loan issuance.	-	387,793	387,793
Principal retirement on bonds and loans	(288,874)	(310,333)	(599,207)
Interest paid on bonds and loans	(73,119)	(116,162)	(189,281)
Principal retirement on capital leases.	-	(54,737)	(54,737)
Interest paid on capital leases	-	(2,532)	(2,532)
Net cash used in capital and related financing activities	<u>(504,001)</u>	<u>(561,597)</u>	<u>(1,065,598)</u>
Net increase in cash and cash equivalents	184,814	317,264	502,078
Cash and cash equivalents at beginning of year. . .	<u>330,010</u>	<u>845,548</u>	<u>1,175,558</u>
Cash and cash equivalents at end of year	<u>\$ 514,824</u>	<u>\$ 1,162,812</u>	<u>\$ 1,677,636</u>

(continued)

CITY OF FOSTORIA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 515,198	\$ 989,522	\$ 1,504,720
Adjustments:			
Depreciation	342,328	340,683	683,011
Changes in assets and liabilities:			
(Increase)/decrease in materials and supplies inventory. .	(4,239)	6,241	2,002
(Increase) in accounts receivable	(211,333)	(210,273)	(421,606)
(Decrease) in accounts payable.	13,293	(305,217)	(291,924)
Increase in accrued wages and benefits	14,554	20,370	34,924
Increase in pension obligations payable	11,400	15,458	26,858
Increase in due to other governments	3,197	30,755	33,952
Increase (Decrease) in compensated absences payable .	5,673	(8,678)	(3,005)
Net cash provided by operating activities	<u>\$ 690,071</u>	<u>\$ 878,861</u>	<u>\$ 1,568,932</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 14,550	\$ 8,598
Cash in segregated accounts	<u>-</u>	<u>30,919</u>
Total assets.	<u>14,550</u>	<u>\$ 39,517</u>
Liabilities:		
Due to other governments	-	\$ 372
Undistributed monies	<u>-</u>	<u>39,145</u>
Total liabilities	<u>-</u>	<u>\$ 39,517</u>
Net assets:		
Held in trust for other purposes	<u>14,550</u>	
Total net assets	<u>\$ 14,550</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, 2008**

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$ 156
Total additions	<u>156</u>
Reductions:	
Other	<u>1,979</u>
Total deductions	<u>1,979</u>
Changes in net assets	(1,823)
Net assets at the beginning of the year	<u>16,373</u>
Net assets at the end of the year	<u>\$ 14,550</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, 2008

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) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations 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 these FASB Statements and Interpretations. 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, 2008

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.

During the year ended December 31, 2008, the City collected an income tax for the purpose of supporting the Kaubisch Memorial Public Library. A total of \$50,000 was paid to the Library.

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, 2008

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) for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. 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.

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

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

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

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, 2008, but which were levied to finance 2009 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, 2008 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.

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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

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 2008.

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.

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.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

During 2008, 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, 2008.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2008 amounted to \$137,877, which included \$93,205 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, 2008 was \$12,959. 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.

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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Improvements to land	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.

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.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

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." 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.

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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

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 2008, the City has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the City; however, certain disclosures related to postemployment benefits (see Note 16) have been modified to conform to the new reporting requirements.

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the City.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the City.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

The following funds had deficit fund balances at December 31, 2008:

Nonmajor governmental funds:

Airport Grant	\$ 21,782
CDBG FY 04	1,323

The CDBG FY 04 fund complied with Ohio State law, which does not permit a cash-basis deficit at year-end. The airport grant fund had cash-basis deficits at year-end, as described in Note 3.C. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance of the CDBG FY04 fund resulted from adjustments for accrued liabilities.

C. Compliance

The City had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10. For GAAP purposes, these amounts have been reported as fund liabilities in the respective funds.

Nonmajor governmental funds

Airport	\$ 21,782
Street Construction, Maintenance & Repair	102,282

Agency funds

Employee bond fund	56
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The general fund is liable for any negative cash balances at December 31, 2008.

Contrary to Ohio Revised Code Section 5705.36(A)(4), the City did not always obtain a new amended certificate of estimated resources when it was determined that revenue to be collected would be less than previous certificates and the resulting deficiency would reduce available resources below the level of appropriations.

Contrary to Ohio Revised Code Section 5705.39, the City had appropriations exceeding total estimated resources in various funds.

Contrary to Ohio Revised Code Section 5705.41(B), the City had expenditures exceeding appropriations in various funds.

Contrary to Ohio Revised Code Section 5705.41(D), certain expenditures were not certified prior to a commitment or obligation being incurred.

Contrary to Ohio Revised Code Section 5705.14-16, the City transferred funds from special revenue funds to other special revenue funds and transferred funds into the general fund.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

D. Restatement of Net Assets

The City has a restatement of net assets due to errors and omissions in capital assets. The change in the City's capital assets had the following effect on net assets as previously reported by the governmental activities and business-type activities:

	Governmental Activities	Business-type Activities Water Fund	Business-type Activities Sewer Fund
Net assets, December 31, 2007	\$ 14,535,174	\$ 15,931,283	\$ 10,406,592
Restatement of capital assets	51,338	68,572	82,177
Restated net assets, December 31, 2007	\$ 14,586,512	\$ 15,999,855	\$ 10,488,769

See Note 10 for the effect of the change on capital assets balances as previously reported by the City at December 31, 2007.

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.

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;

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

A. Cash in Segregated Accounts

At year-end, \$71,360 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, 2008, \$12,959 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".

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At December 31, 2008, the carrying amount of all City deposits, including cash with fiscal agent and cash in segregated accounts, was \$3,718,416. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2008, \$2,925,490 of the City’s bank balance of \$3,838,050 was exposed to custodial risk as discussed below, while \$912,560 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, 2008, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity 6 months or <u>less</u>
STAR Ohio	\$ 1,491,234	\$ 1,491,234

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.

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 Treasurer 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, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 1,491,234	100.00

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,718,416
Investments	<u>1,491,234</u>
Total	<u>\$ 5,209,650</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,477,947
Business-type activities	1,677,636
Private-purpose funds	14,550
Agency funds	<u>39,517</u>
Total	<u>\$ 5,209,650</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2008, consisted of the following, as reported in the fund financial statements:

	<u>Transfers from</u>
<u>Transfers to</u>	<u>General</u>
Nonmajor governmental funds	\$ <u>1,085,423</u>

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.

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, 2008, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 28,282
Nonmajor governmental funds	Nonmajor governmental funds	10,000

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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 6 - PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2008 public utility property taxes became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 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 2008 (other than public utility property) represent the collection of 2008 taxes. Tangible personal property taxes received in 2008 were levied after October 1, 2007, on the true value as of December 31, 2007. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 6.25% for 2008. This percentage will be reduced to zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2008-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing districts 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 and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2008 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 2008 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 rates applied to real property and tangible personal property for the year ended December 31, 2008 were as follows:

Seneca County -	\$4.80 per \$1,000 of assessed valuation
Wood County -	\$4.30 per \$1,000 of assessed valuation
Hancock County -	\$3.40 per \$1,000 of assessed valuation

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Real property

Residential/agricultural \$ 111,693,050

Commercial/industrial/mineral 51,994,930

Tangible personal property 11,785,270

Public utility

Real 214,710

Personal 6,218,280

Total assessed value \$ 181,906,240

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 2008 was \$5,829,973 as reported on the fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2008, 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, 2008, as well as intended to finance 2008 operations.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 8 - RECEIVABLES - (Continued)

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

Governmental activities:

Income taxes	\$	1,501,273
Real and other taxes		844,892
Accounts		70,084
Accrued interest		3,827
Due from other governments		893,161
Special assessments		318,863
Loans		1,476,842

Business-type activities:

Accounts		1,026,201
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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 2008, there were loans outstanding to businesses with a total principal balance due of \$1,476,842.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 10 - CAPITAL ASSETS

- A. Capital assets of the governmental activities and business-type activities have been restated due to errors and omissions previously reported. The change had the following effect on the governmental activities and business-type activities capital asset balances as previously reported:

	Balance		Restated
<u>Governmental activities:</u>	12/31/07	Adjustments	Balance
	12/31/07	Adjustments	12/31/07
<i>Capital assets, not being depreciated:</i>			
Land	\$ 1,890,656	\$ -	\$ 1,890,656
Total capital assets, not being depreciated	1,890,656	-	1,890,656
<i>Capital assets, being depreciated:</i>			
Land improvements	498,469	-	498,469
Buildings	7,200,539	-	7,200,539
Machinery and equipment	1,890,479	-	1,890,479
Vehicles	2,779,803	-	2,779,803
Infrastructure	7,846,902	-	7,846,902
Total capital assets, being depreciated	20,216,192	-	20,216,192
<i>Less: accumulated depreciation:</i>			
Land improvements	(342,096)	-	(342,096)
Buildings	(5,368,218)	6,635	(5,361,583)
Machinery and equipment	(1,621,020)	8,257	(1,612,763)
Vehicles	(1,334,199)	(2,644)	(1,336,843)
Infrastructure	(4,206,230)	39,090	(4,167,140)
Total accumulated depreciation	(12,871,763)	51,338	(12,820,425)
Total capital assets, being depreciated, net	7,344,429	51,338	7,395,767
Government-type activities capital assets, net	\$ 9,235,085	\$ 51,338	\$ 9,286,423

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 10 - CAPITAL ASSETS - (Continued)

	Restated Balance			Balance
<u>Governmental activities:</u>	<u>12/31/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/08</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,890,656	\$ -	\$ -	\$ 1,890,656
Construction in progress	<u>-</u>	<u>616,549</u>	<u>-</u>	<u>616,549</u>
Total capital assets, not being depreciated	<u>1,890,656</u>	<u>616,549</u>	<u>-</u>	<u>2,507,205</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	498,469	-	-	498,469
Buildings	7,200,539	41,448	-	7,241,987
Machinery and equipment	1,890,479	123,410	-	2,013,889
Vehicles	2,779,803	174,349	(125,274)	2,828,878
Infrastructure	<u>7,846,902</u>	<u>230,093</u>	<u>-</u>	<u>8,076,995</u>
Total capital assets, being depreciated	<u>20,216,192</u>	<u>569,300</u>	<u>(125,274)</u>	<u>20,660,218</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(342,096)	(9,412)	-	(351,508)
Buildings	(5,361,583)	(101,330)	-	(5,462,913)
Machinery and equipment	(1,612,763)	(62,703)	-	(1,675,466)
Vehicles	(1,336,843)	(196,458)	111,018	(1,422,283)
Infrastructure	<u>(4,167,140)</u>	<u>(268,449)</u>	<u>-</u>	<u>(4,435,589)</u>
Total accumulated depreciation	<u>(12,820,425)</u>	<u>(638,352)</u>	<u>111,018</u>	<u>(13,347,759)</u>
Total capital assets, being depreciated, net	<u>7,395,767</u>	<u>(69,052)</u>	<u>(14,256)</u>	<u>7,312,459</u>
Government-type activities capital assets, net	<u>\$ 9,286,423</u>	<u>\$ 547,497</u>	<u>\$ (14,256)</u>	<u>\$ 9,819,664</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 10 - CAPITAL ASSETS - (Continued)

	Balance		Restated
<u>Business-type activities:</u>	<u>12/31/07</u>	<u>Adjustments</u>	<u>Balance</u>
			<u>12/31/07</u>
<i>Capital assets, not being depreciated:</i>			
Land	\$ 8,374,270	\$ -	\$ 8,374,270
Total capital assets, not being depreciated	<u>8,374,270</u>	<u>-</u>	<u>8,374,270</u>
<i>Capital assets, being depreciated:</i>			
Buildings	12,427,140	-	12,427,140
Machinery and equipment	2,112,682	27,105	2,139,787
Vehicles	972,028	(27,105)	944,923
Infrastructure	<u>21,789,911</u>	<u>-</u>	<u>21,789,911</u>
Total capital assets, being depreciated	<u>37,301,761</u>	<u>-</u>	<u>37,301,761</u>
<i>Less: accumulated depreciation:</i>			
Buildings	(5,093,109)	(289,497)	(5,382,606)
Machinery and equipment	(1,802,914)	(27,105)	(1,830,019)
Vehicles	(484,382)	13,475	(470,907)
Infrastructure	<u>(7,808,387)</u>	<u>453,876</u>	<u>(7,354,511)</u>
Total accumulated depreciation	<u>(15,188,792)</u>	<u>150,749</u>	<u>(15,038,043)</u>
Total capital assets, being depreciated, net	<u>22,112,969</u>	<u>150,749</u>	<u>22,263,718</u>
Business-type activities capital assets, net	<u>\$ 30,487,239</u>	<u>\$ 150,749</u>	<u>\$ 30,637,988</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 10 - CAPITAL ASSETS - (Continued)

	Restated Balance			Balance
<u>Business-type activities:</u>	<u>12/31/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/08</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 8,374,270	\$ 55,268	\$ -	\$ 8,429,538
Total capital assets, not being depreciated	<u>8,374,270</u>	<u>55,268</u>	<u>-</u>	<u>8,429,538</u>
<i>Capital assets, being depreciated:</i>				
Buildings	12,427,140	-	-	12,427,140
Machinery and equipment	2,139,787	-	-	2,139,787
Vehicles	944,923	77,454	(16,495)	1,005,882
Infrastructure	<u>21,789,911</u>	<u>474,912</u>	<u>-</u>	<u>22,264,823</u>
Total capital assets, being depreciated	<u>37,301,761</u>	<u>552,366</u>	<u>(16,495)</u>	<u>37,837,632</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(5,382,606)	(175,719)	-	(5,558,325)
Machinery and equipment	(1,830,019)	(33,535)	-	(1,863,554)
Vehicles	(470,907)	(90,727)	16,495	(545,139)
Infrastructure	<u>(7,354,511)</u>	<u>(383,030)</u>	<u>-</u>	<u>(7,737,541)</u>
Total accumulated depreciation	<u>(15,038,043)</u>	<u>(683,011)</u>	<u>16,495</u>	<u>(15,704,559)</u>
Total capital assets, being depreciated, net	<u>22,263,718</u>	<u>(130,645)</u>	<u>-</u>	<u>22,133,073</u>
Business-type activities capital assets, net	<u>\$ 30,637,988</u>	<u>\$ (75,377)</u>	<u>\$ -</u>	<u>\$ 30,562,611</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 10 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 7,405
Security of persons and property	203,969
Public health and welfare	24,146
Transportation	356,274
Community environment	599
Leisure time activity	<u>45,959</u>
Total depreciation expense - governmental activities	<u>\$ 638,352</u>

Business-type activities:

Water	\$ 342,328
Sewer	<u>340,683</u>
Total depreciation expense - business-type activities	<u>\$ 683,011</u>

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the City has entered into capitalized lease agreements for the acquisition of heavy equipment, such as a backhoe, dump truck and police vehicles. During 2008, the City entered into two capitalized leases for a mower and police 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 \$703,258 and in the enterprise funds in an amount of \$299,924. Accumulated depreciation as of December 31, 2008 was \$266,427, leaving a current book value of \$736,755. 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 2008 totaled \$170,701 and \$20,513, respectively, in the capital improvements fund, which is a nonmajor governmental fund. Principal and interest payments in 2008 totaled \$54,737 and \$2,532, respectively, in the enterprise funds. In the enterprise funds, principal payments have been reclassified to reduce the capital lease liability, and interest payments have been reclassified as interest and fiscal charges expense.

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, 2008

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, 2008:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2009	\$ 152,587
2010	94,850
2011	80,152
2012	<u>54,375</u>
Total future minimum lease payments	381,964
Less: amount representing interest	<u>(34,619)</u>
Present value of future minimum lease payments	<u>\$ 347,345</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, 2008

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 2008, the following changes occurred in the City's governmental long-term obligations:

	<u>Issue</u>	<u>Interest</u>	<u>Balance</u>			<u>Balance</u>	<u>Due</u>
	<u>Date</u>	<u>Rate</u>	<u>12/31/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/08</u>	<u>Within</u>
							<u>One Year</u>
Governmental activities:							
<u>OWPC loans payable:</u>							
OPWC - Kelly Storm Sewer	05/08/98	N/A	\$ 85,442	\$ -	\$ (8,137)	\$ 77,305	\$ 8,138
OPWC - Circle Drive	12/1/00	N/A	20,500	-	(2,050)	18,450	2,050
OPWC - CSO#5	12/20/00	N/A	32,698	-	(9,342)	23,356	9,342
OPWC - Columbus Avenue	11/14/08	N/A	-	93,308	-	93,308	3,110
Total OPWC loans			<u>138,640</u>	<u>93,308</u>	<u>(19,529)</u>	<u>212,419</u>	<u>22,640</u>
<u>Special assessment bonds:</u>							
Plaza Drive	05/01/88	7.125%	15,000	-	(15,000)	-	-
Kelly Addition	07/23/98	5.95%	254,662	-	(16,942)	237,720	18,007
Total special assessment bonds			<u>269,662</u>	<u>-</u>	<u>(31,942)</u>	<u>237,720</u>	<u>18,007</u>
<u>Other long-term obligations:</u>							
Capital lease obligations			384,198	133,848	(170,701)	347,345	136,083
Compensated absences payable			1,205,969	412,393	(481,082)	1,137,280	495,514
Total other long-term obligations			<u>1,590,167</u>	<u>546,241</u>	<u>(651,783)</u>	<u>1,484,625</u>	<u>631,597</u>
Total governmental activities			<u>\$ 1,998,469</u>	<u>\$ 639,549</u>	<u>\$ (703,254)</u>	<u>\$ 1,934,764</u>	<u>\$ 672,244</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

B. During 2008, the following changes occurred in the City's business-type activities long-term obligations.

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/08</u>	<u>Amounts Due in One Year</u>
Business-type activities:							
<u>General obligation bonds:</u>							
Reservoir refunding bonds	12/01/89	3.80-4.90%	\$ 740,000	\$ -	\$ (235,000)	\$ 505,000	\$ 245,000
Total general obligation bonds			<u>740,000</u>	<u>-</u>	<u>(235,000)</u>	<u>505,000</u>	<u>245,000</u>
<u>OWDA loans payable:</u>							
OWDA loan #3240	10/15/00	4.55%	817,926	-	(47,022)	770,904	49,239
OWDA loan #2262	07/01/95	4.56%	2,629,204	-	(301,345)	2,327,859	315,243
OWDA loan #4426	03/16/06	3.20%	616,913	387,793	-	1,004,706	-
Total OWDA loans			<u>4,064,043</u>	<u>387,793</u>	<u>(348,367)</u>	<u>4,103,469</u>	<u>364,482</u>
<u>OPWC loans payable:</u>							
Fremont Street Pump Station	05/10/01	N/A	44,453	-	(4,679)	39,774	4,679
CSO #1, Wood County		N/A	25,850	-	(4,309)	21,541	4,309
Reservoir Rehabilitation		N/A	58,238	-	(6,852)	51,386	6,851
Total OPWC loans			<u>128,541</u>	<u>-</u>	<u>(15,840)</u>	<u>112,701</u>	<u>15,839</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			281,268	133,496	(136,501)	278,263	140,596
Capital lease obligations			54,737	-	(54,737)	-	-
Total other long-term obligations			<u>336,005</u>	<u>133,496</u>	<u>(191,238)</u>	<u>278,263</u>	<u>140,596</u>
Total business-type activities			<u>\$ 5,268,589</u>	<u>\$ 521,289</u>	<u>\$ (790,445)</u>	<u>\$ 4,999,433</u>	<u>\$ 765,917</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 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%. 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, 2008

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, water fund and sewer 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, 2008, the City has outstanding borrowings of \$4,103,469. 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 #4426 is not closed out as of December 31, 2008. Future annual debt service principal and interest requirements for this loan, which has a balance of \$1,004,706 at December 31, 2008, are not available.

D. A summary of the City's future debt service requirements as of December 31, 2008 follows:

Future Payment Due In	Business-Type OWDA Loans			Business-Type OPWC Loans	Governmental OPWC Loans
	Principal	Interest	Total	Principal Only	Principal Only
2009	\$ 364,482	\$ 137,954	\$ 502,436	\$ 15,839	\$ 22,640
2010	381,344	121,094	502,438	15,839	22,640
2011	398,983	103,454	502,437	15,838	17,970
2012	417,439	84,998	502,437	15,839	13,297
2013	436,750	65,688	502,438	15,839	13,297
2014 - 2018	939,987	109,753	1,049,740	33,507	60,369
2019 - 2023	159,778	9,414	169,192	-	15,552
2024 - 2028	-	-	-	-	15,552
2029 - 2033	-	-	-	-	15,551
2034 - 2038	-	-	-	-	15,551
Total	\$ 3,098,763	\$ 632,355	\$ 3,731,118	\$ 112,701	\$ 212,419

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Future Payment <u>Due In</u>	Governmental <u>Special Assessment Bonds</u>			Business-Type <u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 18,007	\$ 13,879	\$ 31,886	\$ 245,000	\$ 25,500	\$ 270,500
2010	19,095	12,792	31,887	260,000	12,740	272,740
2011	20,248	11,639	31,887	-	-	-
2012	21,440	10,446	31,886	-	-	-
2013	22,765	9,121	31,886	-	-	-
2014 - 2018	<u>136,165</u>	<u>23,266</u>	<u>159,431</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 237,720</u>	<u>\$ 81,143</u>	<u>\$ 318,863</u>	<u>\$ 505,000</u>	<u>\$ 38,240</u>	<u>\$ 543,240</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, 2008, the City's total voted debt margin was \$19,119,510 and the unvoted debt margin was \$10,004,843; both amounts include available funds of \$19,355.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of property and casualty losses, and injuries to employees.

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

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

Casualty Coverage

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 \$350,000, up to \$2,650,000 per claim and \$10,000,000 in the aggregate per year. Members can elect additional coverage, from \$3,000,000 to \$13,000,000 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 a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 14 - RISK MANAGEMENT - (Continued)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. 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 million per occurrence limit. The aggregate stop-loss limit for 2007 (the latest information available) was \$2,014,548.

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 PEP member.

Property and casualty settlements did not exceed insurance coverage for the past three 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, 2008 and 2007.

<u>Casualty & Property Coverage</u>	<u>2008</u>	<u>2007</u>
Assets	\$35,769,535	\$37,560,071
Liabilities	(15,310,206)	(17,340,825)
Retained earnings	20,459,329	20,219,246

At December 31, 2008 and 2007, respectively, casualty coverage liabilities noted above include approximately \$12.9 million and \$15.0 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$12.9 million and \$15.0 million of unpaid claims to be billed to approximately 445 member political subdivisions in the future, as of December 31, 2008 and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$272,000. This payable includes the subsequent year's contribution due if it terminates participation, as described in the last paragraph below.

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.

<u>Contributions to PEP</u>	
2008	\$143,661

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 14 - RISK MANAGEMENT - (Continued)

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 \$400.28 for single coverage and \$1,048.69 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 \$2.35 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 2007.

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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 15 - PENSION PLANS - (Continued)

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 2008, 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 2008 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.10%.

The City's contribution rate for 2008 was 14.00%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.40% of covered payroll. For 2008, a portion equal to 7.00% of covered payroll was allocated to fund the post-employment health care plan.

The City's contribution rate for pension benefits for 2008 was 7.00%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 10.40% of covered payroll. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2008, 2007 and 2006 were \$225,322, \$301,176 and \$280,305, respectively; 83.80% has been contributed for 2008 and 100% has been contributed for 2007 and 2006.

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.

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 2008, 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 \$193,708 and \$199,829 for the year ended December 31, 2008, \$198,250 and \$202,458 for the year ended December 31, 2007 and \$160,172 and \$221,217, for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 75.12% has been contributed for police and 75.12% has been contributed for firefighters for 2008.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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 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 2008, local government employers contributed 14.00% of covered payroll (17.40% 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 amount of the employer contributions which was allocated to fund post-employment healthcare for 2008 was 7.00% of covered payroll.

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, 2008, 2007, and 2006 were \$225,322, \$198,380 and \$137,105, respectively; 83.80% has been contributed for 2008 and 100% has been contributed for 2007 and 2006.

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 increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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 OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively.

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, 2008, 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. Active members do not make contributions to the OPEB Plan.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$102,551 and \$78,194 for the year ended December 31, 2008, \$104,956 and \$79,223 for the year ended December 31, 2007 and \$105,454 and \$105,544, for the year ended December 31, 2006. The full amount has been contributed for 2007 and 2006. 75.12% has been contributed for police and 75.12% has been contributed for firefighters for 2008.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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.

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ (407,522)
Net adjustment for revenue accruals	66,997
Net adjustment for expenditure accruals	(479,899)
Net adjustment for other financing sources/(uses)	415,629
Adjustment for encumbrances	<u>97,243</u>
GAAP basis	<u>\$ (307,552)</u>

NOTE 18 - CONTINGENCIES

A. Grants

For the period January 1, 2008 to December 31, 2008, the City received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies on their designees. Such audits could lead to a request for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 18 - CONTINGENCIES - (Continued)

B. 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, 2008, is \$1,207,075. 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.

City of Fostoria
Seneca County
Schedule of Federal Awards Expenditures
For the Year Ending December 31, 2008

Federal Grantor/Pass Through Grantor Number/Program Title	Pass Through Entity Number	CFDA Number	Federal Receipts	Federal Expenditures
<u>U.S. Department of Transportation</u>				
Direct Program				
Airport Improvement Grant	N/A	20.106	\$415,119	\$456,561
Total U.S. Department of Agriculture			415,119	456,561
<u>U.S. Environmental Protection Agency</u>				
Direct Program				
Brownfield Assessment and Cleanup Cooperative Agreement	N/A	66.818	24,208	36,828
Total U.S. Environmental Protection Agency			24,208	36,828
<u>U.S. Department of Housing and Urban Development</u>				
Pass through Ohio Department of Development, Hancock County Regional Planning Commission Community Development Block Grant				
Community Development Block Grant - 2006	A-F-06-121-1	14.228	1,714	1,339
Community Development Block Grant - 2007	A-F-07-121-1	14.228	46,892	45,011
Total Community Development Block Grant			48,606	46,350
Total U.S. Department of Housing and Urban Development			48,606	46,350
<u>U.S. Department of Health & Human Services</u>				
Pass through Ohio Office of Criminal Justice Services Violence Protection Program				
Violence Protection Program - 2006	2006-VP-003	93.671	51,520	51,520
Total U.S. Department of Health & Human Services			51,520	51,520
Total Federal Expenditures			<u>\$539,453</u>	<u>\$591,259</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

**CITY OF FOSTORIA
SENECA COUNTY**

**Notes to the Schedule of Federal Award Expenditures
For the Year Ended December 31, 2008**

Note A- Significant Accounting Policies

The accompanying Schedule of Federal Award Expenditures is a summary of the activity of the City's federal awards programs. The schedule has been prepared on the cash basis of accounting.

Note B – Matching Requirements

Certain Federal programs require that the City contribute non-Federal funds (matching) to support the Federally-funded programs. The expenditures of non-Federal matching funds are not included on the Schedule.

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Charles E. Harris & Associates, Inc.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
REQUIRED BY GOVERNMENT 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, business-type activities, each major fund and the remaining fund information of the City of Fostoria (the "City") as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued a report thereon dated October 16, 2009. 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.

Internal Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying Schedule of Findings, item 2008-FOST-05 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 2008-FOST-01 through 2008-FOST-04, 2008-FOST-06 and 2008-FOST-07.

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

We also noted certain matters that we have reported to management of the City in a separate letter dated October 16, 2009.

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

Charles E. Harris & Associates, Inc.

October 16, 2009

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the City Council:

Compliance

We have audited the compliance of the City of Fostoria, Seneca County (City), with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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

Charles E. Harris & Associates, Inc.

October 16, 2009

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**CITY OF FOSTORIA
SENECA COUNTY
December 31, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(ii)	<i>Were there any other significant deficiencies reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Airport Improvement Grant CFDA 20.106
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	No

CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS
December 31, 2008

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

FINDING NUMBER 2008-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. In addition, Auditor of State Audit Bulletin 97-010 requires budgetary compliance to be tested at the legal level of control at the end of the year.

At December 31, 2008, the following funds' expenditures exceeded total appropriations:

Special Revenue Funds:

- Fire Department Grants Fund (\$4,726)
- Cemetery Podium Project Fund (\$892)
- Revolving Loan UDAG Fund (\$8,750)
- Termination Benefits Fund (\$39,805)
- Court Special Project Fund (\$521)
- Prosecutors' County Contribution Fund (\$52,075)

Capital Projects Fund:

- Capital Improvements Fund (\$12,899)

Internal Service Fund:

- Health Insurance Fund (\$142,450)

At December 31, 2008, the following General Fund line items had expenditures plus encumbrances exceeded total appropriations:

- Security – EMS (\$628)
- General Government – Legislation (\$45)
- General Government – Legal Administration (\$2,924)
- General Government – City Income (\$921,024)
- General Government – Civil Service (\$169)
- General Government – County Auditors (\$30)
- Other (\$2,457)
- Transfers out – (\$565,423)

We recommend that the City better monitor their budgetary process on a monthly basis.

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, 2008

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued

FINDING NUMBER 2008-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.

At December 31, 2008, the following funds' appropriations exceeded total estimated resources:

General Fund (\$96,895)

Special Revenue Funds:

- Street Construction Maintenance and Repair (\$193,363)
- DARE Grant Fund (\$17,525)
- Hancock County Park Grant Fund (\$34,580)
- Fire Department Asset Replacement Fund (\$170)
- Fire Department Grant Fund (\$8,179)
- Airport Grant Fund (\$930,014)
- Brownfield Grant Fund (\$24,408)
- Veteran's Chapel Maintenance Fund (\$815)
- Parks & Recreation Fund (\$172,478)
- Community Development FY 07 Fund (\$71,000)
- Real Estate Tax – Police/Fire Pension Fund (\$3,727)

Enterprise Funds:

- Water Revenue Fund (\$128,066)
- Sewer Plant Replacement Fund (\$301,090)

Internal Service Fund

- Health Insurance Fund (\$24,213)

We recommend that the City monitor appropriations and estimated resources on a monthly basis.

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, 2008

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued

FINDING NUMBER 2008-FOST-03 Noncompliance Citation

Ohio Revised Code Section 5705.41 (D) (1), requires, in part, that no subdivision or taxing unit shall make any contract or order any expenditure unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement state above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

"Then and Now" Certificate – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less that \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditure by the City.

Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predicable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During our testing, we noticed that the City created multi-vendor purchase orders similar to blanket purchase orders for various line items. Also, we noticed that the multi-vendor purchase orders were not cancelled at the end of the fiscal year.

CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2008

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued

FINDING NUMBER 2008-FOST-03 Noncompliance Citation (continued)

The City used a multi-vendor purchase order for street repairs. These types of repairs were neither recurring nor reasonably predictable operating expense.

We recommend the City's management implement procedures utilizing one of the above options. Further, we recommend that the City cancel all non-regular purchase orders at the end of the fiscal year.

Management's Response:

The City Auditor has implemented procedures to significantly reduce the number of multi-vendor purchase orders and to ensure that all non-regular purchase orders are cancelled at the end of the year. These procedures allow for better monitoring of purchase orders. However, this requirement quadruples the staff's workload in regards to purchasing.

FINDING NUMBER 2008-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 Street Construction, Maintenance and Repair Fund – Special Revenue Fund (\$102,282), Airport Grant Fund – Special Revenue Fund (\$21,782), Employees' Bond Fund – Agency Fund (\$56) were found to have negative cash fund balances at December 31, 2008.

We recommend that the City monitor their fund balances on a monthly basis and transfer to funds with negative balances. Also, expenditures should only be made from funds that purchases are intended.

Management's Response:

The City will monitor fund balances on a continuous basis to avoid negative balances.

**CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2008**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued

FINDING NUMBER 2008-FOST-05 Material Weakness

A capital assets management system ensures that policies and procedures are in place to safeguard assets and maintains the integrity of financial statement information. These procedures should include: authorizing and recording disposals and transfers of assets; recording purchases as additions at the time items are received; tagging assets to ensure that each asset is in the appropriate location and described accurately in the City's inventory list.

The City's capital asset system balances did not tie to their financial statements. As a result, the City had to reconcile their capital asset system resulting in adjustments to machinery and equipment, vehicles, infrastructure and depreciation in both Governmental Activities and Business Activities.

Also, an adjustment was made to a capital leases for a dump truck the City paid in full. The financial statements showed the vehicle as a capital lease.

We recommend that management follow their formulated capital asset procedure to properly capture all capital assets as purchased and disposed and include them in their sub-ledger. These procedures include inventory of capital assets throughout the City through the implementation of policies and procedures which address: 1) reporting to the Finance Director (for updating City-wide records) 2) input tagged items into the City's computer system 3) calculating and recording depreciation 4) perform a physical count of capital assets to obtain an accurate balance and then perform periodic physical counts regularly and 5) maintain a detailed master capital asset list appropriately sorted and readily sorted which readily supports financial statement preparation.

The financial statements have been adjusted to reflect the proper balances of capital assets.

Management's Response:

Management is working with their GAAP conversion firm to better track capital assets.

**CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2008**

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

FINDING NUMBER 2008-FOST-06 Non-Compliance Citation

Ohio Rev. Code Section 5705.14, 5705.15, and 5705.16 states that no transfer can be made from one fund of a subdivision to any other fund, except money may be transferred from the general fund to any fund of the subdivision by resolution of the taxing authority or from one fund to another as is specifically authorized in Ohio Rev. Code Section 5705.14.

Transfers and must be specifically approved by a formal resolution or transfer of the taxing authority of the subdivision. The resolution must include:

- A specific statement that the transaction is either a transfer or an advance of cash, and
- The specific funds providing and receiving, and the amounts of the transfer.

The City transferred \$892 from the Cemetery Podium Project – Special Revenue Fund and \$3,531 from the Streetscape – Debt Service Fund to the General Fund. Also, the City transferred \$164,101 from the State Highway Improvement Fund – Special Revenue Fund to the Street Construction Maintenance & Repair Fund – Special Revenue Fund.

The above transfers were not in compliance with Ohio Revised Code Sections 5705.14-16 and were reversed in the financial statements and the City’s records.

We recommend the City refer to the Ohio Revised Code Section 5705.14, 5705.15, and 5705.16 prior to making transfers and advances and make them accordingly.

Management’s Response:

The City will refer to Ohio Revised Code Sections 5705.14-16 prior to posting transfers.

FINDING NUMBER 2008-FOST-07 Non-Compliance Citation

Ohio Revised Code Section 5705.36(A)(4) requires that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriation, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency. The following fund had actual receipts below estimated receipts, which the deficiency reduced the estimated resources below the level of appropriation.

	Estimated Receipts	Actual Receipts	Variance
Special Revenue Fund: CDBG Fund	\$73,100	\$1,714	(\$71,386)

We recommend that the City monitor estimated receipts and actual revenue. The City should request that Seneca County issue an amended certificate of estimated resources to reflect the actual revenue.

**CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2008**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued

Management's Response:

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**CITY OF FOSTORIA
SENECA COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2008**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2007-FOST-01	Ohio Revised Code Section 5705.41 (B) - Expenditures Exceeded Appropriations	No	Repeated as 2008- FOST-01
2007-FOST-02	Ohio Revised Code Section 5705.10 – Negative Fund Balances	No	Repeated as 2008- FOST-04
2007-FOST-03	Ohio Revised Code Section 5705.39 - Total Appropriations Exceeded Estimated Resources	No	Repeated as 2008- FOST-02
2007-FOST-04	Ohio Revised Code Section 5705.41 (D) – Improper certification of funds	No	Repeated as 2008- FOST-03
2007-FOST-05	Ohio Revised Code Section 5705.36 (A)(4) – Deficiency	No	Repeated as 2008- FOST-08
2007-FOST-06	Bank Reconciliation Issues	Yes	Fully Corrected
2007-FOST-07	Capital Asset Management System	No	Repeated as 2008- FOST-06
2007-FOST-08	Ohio Revised Code Section 5705.14-16 – Improper transfers	No	Repeated as 2008- FOST-07



Mary Taylor, CPA
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
JANUARY 21, 2010**