

***CITY OF FOSTORIA***  
**SENECA COUNTY, OHIO**

**AUDIT REPORT**

**For the Year Ended December 31, 2012**







# Dave Yost • Auditor of State

City Council  
City of Fostoria  
213 South Main Avenue  
Fostoria, Ohio 44830

We have reviewed the *Independent Auditors' Report* of the City of Fostoria, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

November 4, 2013

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**CITY OF FOSTORIA  
SENECA COUNTY  
AUDIT REPORT  
For the Year Ending December 31, 2012**

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

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## **INDEPENDENT AUDITOR'S REPORT**

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

To the City Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**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, 2012, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparisons for the General and Fostoria Revolving Loan funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As described in Note 3, the City implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". We did not modify our opinion regarding these matters.

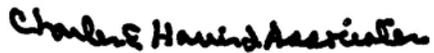
**Other Matters**

Required Supplementary Information

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Charles E. Harris & Associates, Inc.**  
August 30, 2013

## CITY OF FOSTORIA, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. 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 2012 are as follows:

- The total net position of the City increased \$607,900. Net position of governmental activities increased \$344,335 or 2.43% from 2011 and net position of business-type activities increased \$263,565 or 0.91% from 2011.
- General revenues accounted for \$6,154,553 or 63.96% of total governmental activities revenue. Program specific revenues accounted for \$3,468,058 or 36.04% of total governmental activities revenue.
- The City had \$9,278,276 in expenses related to governmental activities; \$3,468,058 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$6,154,553 were adequate to cover the remaining expenses of the governmental activities of \$5,810,218.
- The general fund had revenues of \$6,947,604 in 2012. This represents an increase of \$578,616 from 2011 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$6,663,583 in 2012, increased \$186,413 from 2011. The net increase in fund balance for the general fund was \$284,021 or 42.41%.
- The Fostoria revolving loan fund had revenues of \$41,898 in 2012. This represents a decrease of \$191,652 from 2011 revenues. The expenditures of the Fostoria revolving loan fund, which totaled \$29,405 in 2012, decreased \$1,289 from 2011. The net increase in fund balance for the Fostoria revolving loan fund was \$12,493 or 0.59%.
- Net position for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2012 by \$263,565. This increase in net position was due primarily to an increase in capital contributions.
- In the general fund, the actual revenues were \$312,728 more than in the final budget and actual expenditures and other financing uses were \$59,748 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues were \$15,235 more than the original revenues. Budgeted expenditures and other financing uses increased \$367,963 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 position 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, 2012

#### **Reporting the City as a Whole**

##### *Statement of Net position and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net position and the statement of activities answer this question. These statements include all assets and deferred outflows, liabilities and deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**Governmental activities** - Most of the City's programs and services are reported here including police, fire 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, 2012**

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and the Fostoria revolving loan 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 20-25 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 26-28 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 31-64 of this report.

**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net position at December 31, 2012 and December 31, 2011. The City reclassified certain balances to conform to 2012 presentation.

	<b>Net Position</b>					
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>Assets</u>						
Current and other assets	\$ 7,666,921	\$ 7,323,820	\$ 2,318,139	\$ 2,515,599	\$ 9,985,060	\$ 9,839,419
Capital assets, net	9,802,198	9,822,845	31,699,749	31,255,250	41,501,947	41,078,095
<b>Total assets</b>	<b>17,469,119</b>	<b>17,146,665</b>	<b>34,017,888</b>	<b>33,770,849</b>	<b>51,487,007</b>	<b>50,917,514</b>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,685,781	1,617,650	4,642,138	4,651,190	6,327,919	6,268,840
Other liabilities	600,422	595,573	297,354	304,828	897,776	900,401
<b>Total liabilities</b>	<b>2,286,203</b>	<b>2,213,223</b>	<b>4,939,492</b>	<b>4,956,018</b>	<b>7,225,695</b>	<b>7,169,241</b>
<u>Deferred inflows of resources</u>						
Property taxes levied for the next fiscal year	679,135	789,856	-	-	679,135	789,856
Payment in lieu of taxes levied for the next fiscal year	15,860	-	-	-	15,860	-
<b>Total liabilities</b>	<b>694,995</b>	<b>789,856</b>	<b>-</b>	<b>-</b>	<b>679,135</b>	<b>789,856</b>
<u>Net Position</u>						
Net investment in capital assets	9,390,095	9,437,938	27,409,611	26,856,858	36,799,706	36,294,796
Restricted	4,438,312	4,031,688	-	-	4,438,312	4,031,688
Unrestricted	659,514	673,960	1,668,785	1,957,973	2,328,299	2,631,933
<b>Total net position</b>	<b>\$ 14,487,921</b>	<b>\$ 14,143,586</b>	<b>\$ 29,078,396</b>	<b>\$ 28,814,831</b>	<b>\$ 43,566,317</b>	<b>\$ 42,958,417</b>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$43,566,317. At year-end, net position was \$14,487,921 and \$29,078,396 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 assets. At year-end, capital assets represented 80.61% of total assets. Capital assets include land, land improvements, buildings, machinery and equipment, vehicles, and infrastructure. Net investment in capital assets at December 31, 2012, were \$9,390,095 and \$27,409,611 in the governmental and business-type activities respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net position, \$4,438,312, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance is an unrestricted net position balance of \$659,514.

**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

The table below shows the changes in net position for 2012 and 2011.

	Governmental		Change in Net Position		Business-type		Total
	Activities		Activities				
	2012	2011	2012	2011	2012	2011	
<b>Revenues:</b>							
Program revenues:							
Charges for services	\$ 1,011,484	\$ 618,767	\$ 5,414,089	\$ 5,508,572	\$ 6,425,573	\$ 6,127,339	
Operating grants and contributions	2,289,920	1,646,445	-	-	2,289,920	1,646,445	
Capital grants and contributions	166,654	7,459	-	-	166,654	7,459	
Total program revenues	<u>3,468,058</u>	<u>2,272,671</u>	<u>5,414,089</u>	<u>5,508,572</u>	<u>8,882,147</u>	<u>7,781,243</u>	
General revenues:							
Property taxes	615,367	907,322	-	-	615,367	907,322	
Income taxes	4,616,108	4,396,820	-	-	4,616,108	4,396,820	
Unrestricted grants and entitlements	677,591	474,660	-	-	677,591	474,660	
Investment earnings	19,896	47,642	-	-	19,896	47,642	
Refunds and reimbursements	41,226	154,464	-	-	41,226	154,464	
Miscellaneous	184,365	426,623	36,561	49,259	220,926	475,882	
Total general revenues	<u>6,154,553</u>	<u>6,407,531</u>	<u>36,561</u>	<u>49,259</u>	<u>6,191,114</u>	<u>6,456,790</u>	
Total revenues	<u>9,622,611</u>	<u>8,680,202</u>	<u>5,450,650</u>	<u>5,557,831</u>	<u>15,073,261</u>	<u>14,238,033</u>	
<b>Expenses:</b>							
General government	1,539,289	1,516,949	-	-	1,539,289	1,516,949	
Security of persons and property	5,439,899	4,965,731	-	-	5,439,899	4,965,731	
Public health and welfare	338,534	382,909	-	-	338,534	382,909	
Transportation	1,088,982	991,522	-	-	1,088,982	991,522	
Community environment	697,743	610,234	-	-	697,743	610,234	
Leisure time activity	156,264	135,610	-	-	156,264	135,610	
Other	5,670	14,080	-	-	5,670	14,080	
Interest and fiscal charges	11,895	16,193	-	-	11,895	16,193	
Water	-	-	2,786,308	2,866,721	2,786,308	2,866,721	
Sewer	-	-	2,400,777	3,068,559	2,400,777	3,068,559	
Total expenses	<u>9,278,276</u>	<u>8,633,228</u>	<u>5,187,085</u>	<u>5,935,280</u>	<u>14,465,361</u>	<u>14,568,508</u>	
Increase (decrease) in net position before transfers	344,335	46,974	263,565	(377,449)	607,900	(330,475)	
Transfers	-	(1,302)	-	1,302	-	-	
Change in net position	344,335	45,672	263,565	(376,147)	607,900	(330,475)	
Net position at beginning of year	<u>14,143,586</u>	<u>14,097,914</u>	<u>28,814,831</u>	<u>29,190,978</u>	<u>42,958,417</u>	<u>43,288,892</u>	
Net position at end of year	<u>\$ 14,487,921</u>	<u>\$ 14,143,586</u>	<u>\$ 29,078,396</u>	<u>\$ 28,814,831</u>	<u>\$ 43,566,317</u>	<u>\$ 42,958,417</u>	

## CITY OF FOSTORIA, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

#### Governmental Activities

Governmental activities net position increased \$344,335 in 2012.

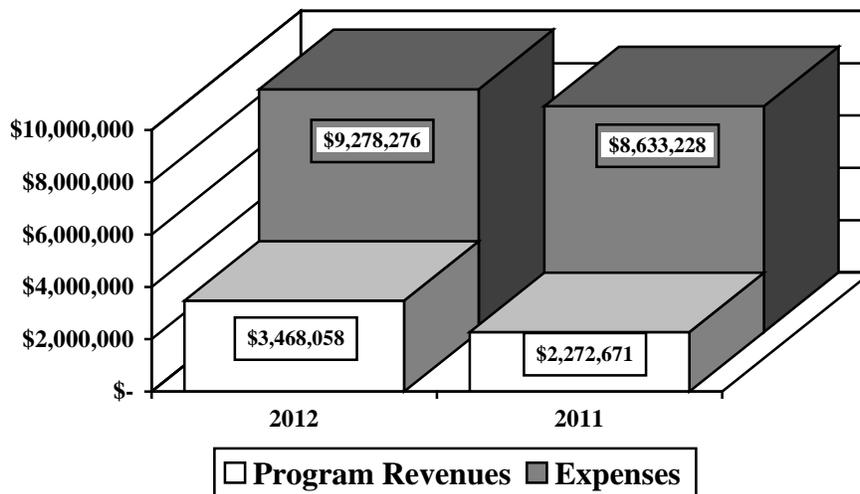
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,439,899 of the total expenses of the City. These expenses were partially funded by \$538,633 in direct charges to users of the services and \$923,217 in operating grants and contributions. Transportation expenses totaled \$1,088,982. Transportation expenses were partially funded by \$16,257 in direct charges to users of the services, \$603,169 in operating grants and contributions and \$166,654 in capital grants and contributions.

The state and federal government contributed to the City a total of \$2,289,920 in operating grants and contributions and \$166,654 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$603,169 subsidized transportation programs, \$619,064 subsidized community environment programs and \$923,217 subsidized security of persons and property activities.

General revenues totaled \$6,154,553, and amounted to 63.96% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$5,231,475. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue, making up \$677,591.

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**



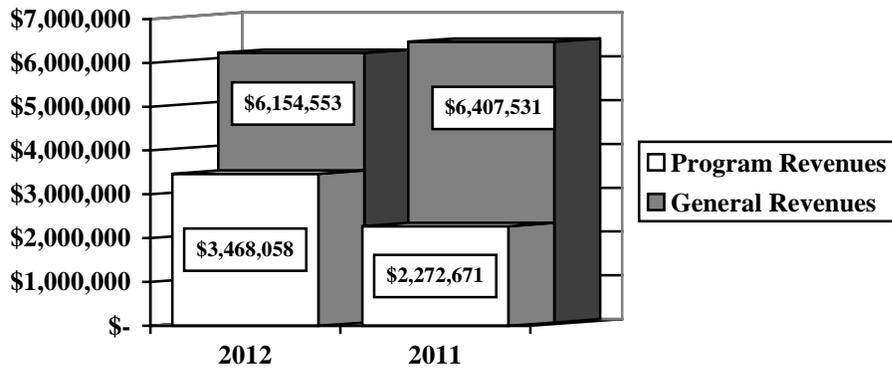
**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>
Program Expenses:				
General government	\$ 1,539,289	\$ 1,209,340	\$ 1,516,949	\$ 1,246,201
Security of persons and property	5,439,899	3,978,049	4,965,731	4,300,494
Public health and welfare	338,534	157,923	382,909	203,303
Transportation	1,088,982	302,902	991,522	282,149
Community environment	697,743	53,718	610,234	206,490
Leisure time activity	156,264	91,021	135,610	92,253
Other	5,670	5,370	14,080	13,474
Interest and fiscal charges	<u>11,895</u>	<u>11,895</u>	<u>16,193</u>	<u>16,193</u>
<b>Total</b>	<b><u>\$ 9,278,276</u></b>	<b><u>\$ 5,810,218</u></b>	<b><u>\$ 8,633,228</u></b>	<b><u>\$ 6,360,557</u></b>

The dependence upon general revenues for governmental activities is apparent, with 62.62% of expenses supported through taxes and other general revenues.

**Governmental Activities – General and Program Revenues**



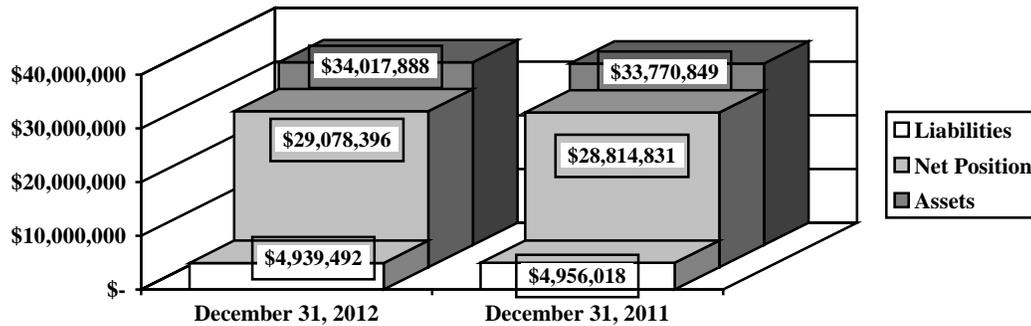
**CITY OF FOSTORIA, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**Business-type Activities**

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$5,414,089 general revenues of \$36,561 and expenses of \$5,187,085 for 2012. The graph below shows the business-type activities assets, liabilities and net position at year-end.

**Net position in Business – Type Activities**



**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$4,971,541 which is \$276,621 more than last year's total of \$4,694,920. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2012 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/12</u>	Fund Balances <u>12/31/11</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 953,726	\$ 669,705	\$ 284,021
Fostoria Revolving Loan	2,129,755	2,117,262	12,493
Other nonmajor governmental funds	<u>1,888,060</u>	<u>1,907,953</u>	<u>(19,893)</u>
 Total	 <u>\$ 4,971,541</u>	 <u>\$ 4,694,920</u>	 <u>\$ 276,621</u>

**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

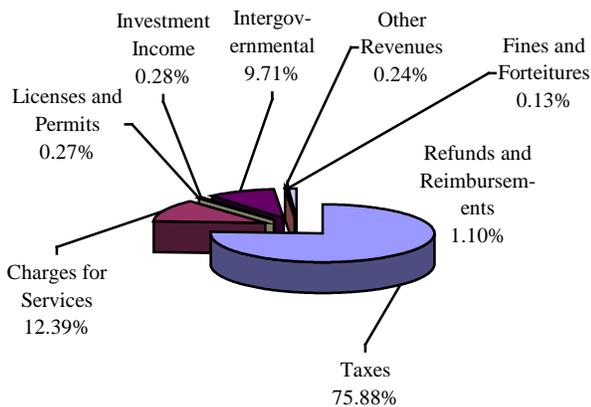
**General Fund**

The City's general fund balance increased \$232,357, primarily due to an increase in tax revenues. The table that follows assists in illustrating the revenues of the general fund.

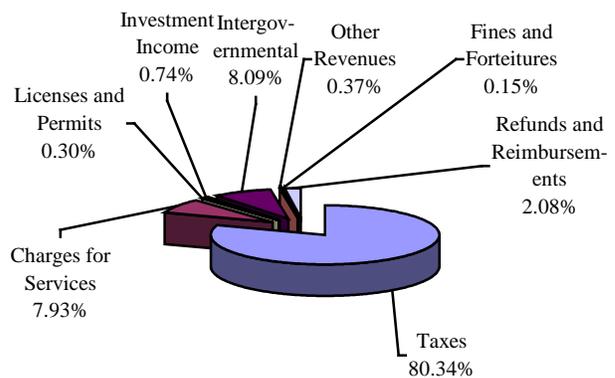
	2012	2011	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b>Revenues</b>			
Taxes	\$ 5,272,003	\$ 5,113,111	3.11 %
Charges for services	860,568	504,604	70.54 %
Licenses and permits	18,638	19,274	(3.30) %
Investment income	19,743	47,282	(58.24) %
Fines and forfeitures	8,150	9,821	(17.01) %
Intergovernmental	674,838	515,254	30.97 %
Refunds and reimbursements	76,693	132,648	(42.18) %
Other	<u>16,971</u>	<u>23,410</u>	(27.51) %
<b>Total</b>	<b><u>\$ 6,947,604</u></b>	<b><u>\$ 6,365,404</u></b>	<b>9.15 %</b>

Tax revenue represents 75.88% of all general fund revenue. Tax revenue increased by 3.11% over prior year. Investment income decreased 58.24% due to a decrease in the amount held by the City in interest-bearing investment accounts and interest rates. Charges for services increased 70.54% due to an increase in ambulance charges. Intergovernmental revenue increased 30.97% due to an increase in estate tax. Refunds and reimbursements decreased 42.18% due to a decrease in salary and insurance reimbursements. All other revenue remained comparable to 2011.

**Revenues – 2012**



**Revenues – 2011**



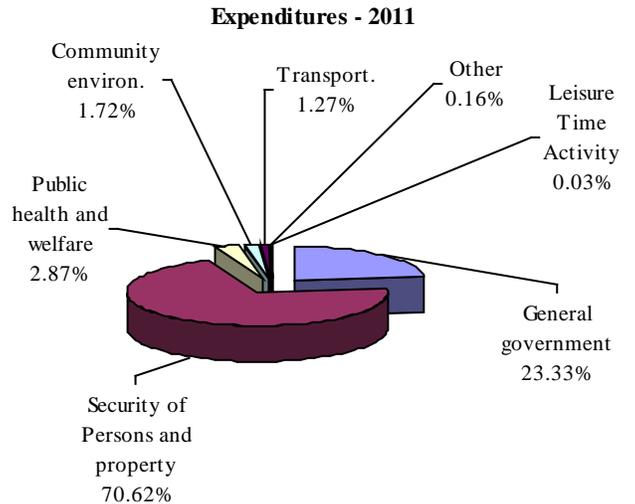
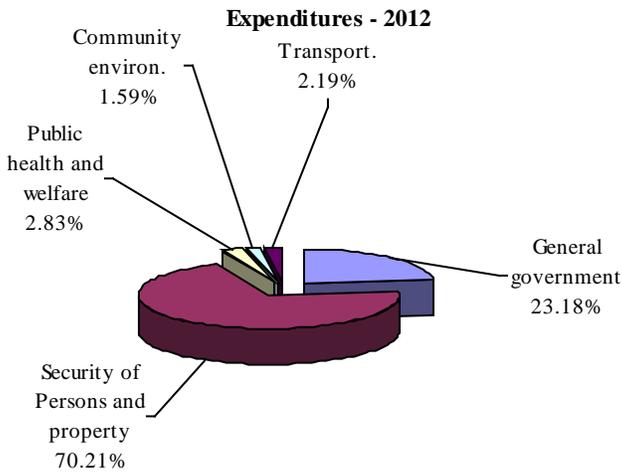
**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

	2012	2011	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 1,412,081	\$ 1,385,052	1.95 %
Security of persons and property	4,278,281	4,193,076	2.03 %
Public health and welfare	172,527	170,310	1.30 %
Transportation	133,523	75,365	77.17 %
Community environment	97,171	101,898	(4.64) %
Leisure time activity	-	1,925	(100.00) %
Other	-	9,544	(100.00) %
<b>Total</b>	<b><u>\$ 6,093,583</u></b>	<b><u>\$ 5,937,170</u></b>	<b>2.63 %</b>

The community environment expenditure line item decreased 4.64%, which is primarily attributed to contract expenses in the zoning department. Transportation expenditures increased 77.17% due to street and maintenance projects. All expenditures remained comparable to 2011.



***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, 2012

In the general fund, the actual revenues were \$312,728 more than in the final budget and actual expenditures and other financing uses were \$70,497 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues were \$15,235 more than the original revenues. Budgeted expenditures and other financing uses increased \$367,963 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. 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 2012, the City had \$41,501,947 (net of accumulated depreciation) invested in land, land improvements, buildings, machinery and equipment, vehicles and infrastructure. Of this total, \$9,802,198 was reported in governmental activities and \$31,699,749 was reported in business-type activities. The following table shows December 31, 2012 balances compared to December 31, 2011.

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

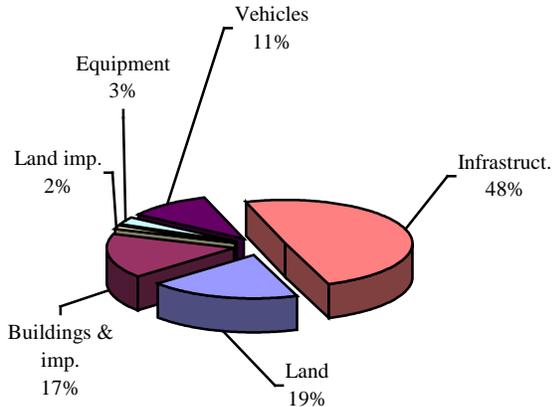
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,890,656	\$ 1,890,656	\$ 8,429,538	\$ 8,429,538	\$ 10,320,194	\$ 10,320,194
Land improvements	116,485	222,960	-	-	116,485	222,960
Buildings	1,630,116	1,588,603	7,985,841	8,208,719	9,615,957	9,797,322
Machinery and equipment	276,016	243,367	576,544	425,480	852,560	668,847
Vehicles	1,049,278	1,083,322	174,621	192,011	1,223,899	1,275,333
Infrastructure	<u>4,839,647</u>	<u>4,793,937</u>	<u>14,533,205</u>	<u>13,999,502</u>	<u>19,372,852</u>	<u>18,793,439</u>
Totals	<u>\$ 9,802,198</u>	<u>\$ 9,822,845</u>	<u>\$ 31,699,749</u>	<u>\$ 31,255,250</u>	<u>\$ 41,501,947</u>	<u>\$ 41,078,095</u>

**CITY OF FOSTORIA, OHIO**

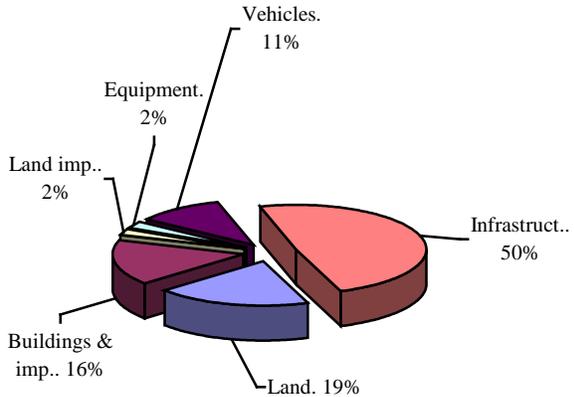
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

The following graphs show the breakdown of governmental capital assets by category for 2012 and 2011.

**Capital Assets - Governmental Activities  
2012**



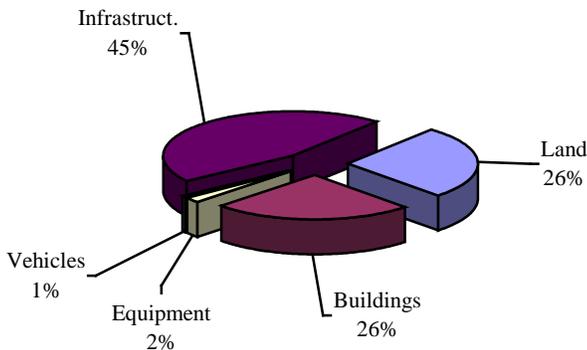
**Capital Assets - Governmental Activities  
2011**



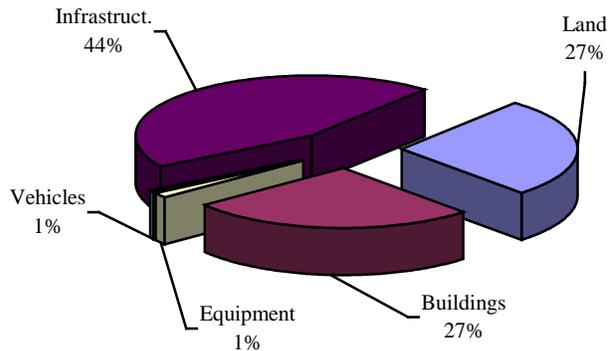
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 48% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2012 and 2011.

**Capital Assets - Business-Type Activities 2012**



**Capital Assets - Business-Type Activities 2011**



**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 45% 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, 2012 and 2011:

Governmental Activities

	<u>2012</u>	<u>2011</u>
OPWC loans	\$ 132,562	\$ 152,444
Capital lease payable	69,046	52,093
Equipment loan	51,565	-
Special assessment bonds	<u>158,930</u>	<u>180,370</u>
Total long-term obligations	<u>\$ 412,103</u>	<u>\$ 384,907</u>

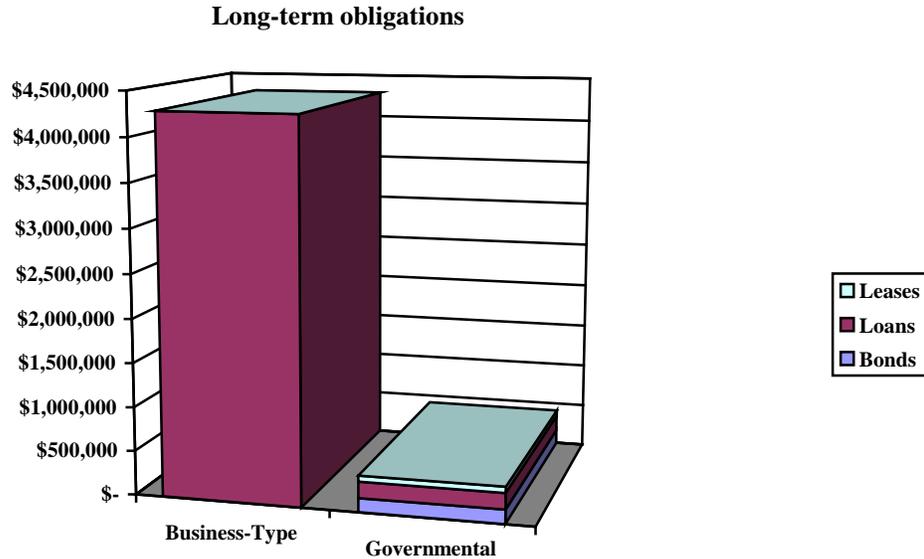
Business-Type Activities

	<u>2012</u>	<u>2011</u>
OPWC loans	\$ 471,430	\$ 210,126
OWDA loans	<u>3,818,708</u>	<u>4,188,266</u>
Total long-term obligations	<u>\$ 4,290,138</u>	<u>\$ 4,398,392</u>

**CITY OF FOSTORIA, OHIO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 2012 census is 13,282.

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 2012 budget.

These economic factors were considered in preparing the City’s budget for fiscal year 2012. Budgeted revenues and other financing sources in the general fund for fiscal year 2012 budget are \$6,667,411. 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.

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**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF FOSTORIA, OHIO**

STATEMENT OF NET POSITION  
DECEMBER 31, 2012

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 3,075,644	\$ 1,325,023	\$ 4,400,667
Cash and cash equivalents with fiscal agent. . . . .	5,749	-	5,749
Receivables:			
Income taxes . . . . .	955,786	-	955,786
Real and other taxes . . . . .	778,945	-	778,945
Accounts. . . . .	122,235	949,064	1,071,299
Payment in lieu of taxes. . . . .	15,860	-	15,860
Due from other governments. . . . .	991,052	-	991,052
Special assessments . . . . .	191,317	-	191,317
Loans . . . . .	1,424,878	-	1,424,878
Materials and supplies inventory. . . . .	105,455	44,052	149,507
Capital assets:			
Land. . . . .	1,890,656	8,429,538	10,320,194
Depreciable capital assets, net . . . . .	<u>7,911,542</u>	<u>23,270,211</u>	<u>31,181,753</u>
Total capital assets, net. . . . .	<u>9,802,198</u>	<u>31,699,749</u>	<u>41,501,947</u>
 Total assets. . . . .	 <u>17,469,119</u>	 <u>34,017,888</u>	 <u>51,487,007</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	124,245	63,666	187,911
Accrued wages and benefits . . . . .	101,502	38,438	139,940
Due to other governments . . . . .	214,266	107,790	322,056
Pension obligation payable. . . . .	160,383	30,177	190,560
Accrued interest payable. . . . .	26	57,283	57,309
Long-term liabilities:			
Due within one year . . . . .	347,193	634,384	981,577
Due in more than one year. . . . .	<u>1,338,588</u>	<u>4,007,754</u>	<u>5,346,342</u>
 Total liabilities . . . . .	 <u>2,286,203</u>	 <u>4,939,492</u>	 <u>7,225,695</u>
<b>Deferred inflows of resources:</b>			
Property taxes levied for the next fiscal year. . . . .	679,135	-	679,135
Payment in lieu of taxes levied for the next fiscal year. . . . .	<u>15,860</u>	<u>-</u>	<u>15,860</u>
 Total deferred inflows of resources . . . . .	 <u>694,995</u>	 <u>-</u>	 <u>694,995</u>
<b>Net position:</b>			
Net investment in capital assets . . . . .	9,390,095	27,409,611	36,799,706
Restricted for:			
Capital projects . . . . .	229,480	-	229,480
Debt service . . . . .	19,355	-	19,355
Security of persons and property. . . . .	659,512	-	659,512
Transportation projects . . . . .	843,444	-	843,444
Revolving loans . . . . .	2,343,737	-	2,343,737
Public health and welfare . . . . .	89,787	-	89,787
Community environment . . . . .	139,006	-	139,006
Perpetual care:			
Nonexpendable. . . . .	19,844	-	19,844
Other purposes. . . . .	94,147	-	94,147
Unrestricted . . . . .	<u>659,514</u>	<u>1,668,785</u>	<u>2,328,299</u>
 Total net position . . . . .	 <u>\$ 14,487,921</u>	 <u>\$ 29,078,396</u>	 <u>\$ 43,566,317</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental activities:</b>				
General government . . . . .	\$ 1,539,289	\$ 329,949	\$ -	\$ -
Security of persons and property. . . . .	5,439,899	538,633	923,217	-
Public health and welfare . . . . .	338,534	49,961	130,650	-
Transportation . . . . .	1,088,982	16,257	603,169	166,654
Community environment. . . . .	697,743	24,961	619,064	-
Leisure time activity . . . . .	156,264	51,723	13,520	-
Other. . . . .	5,670	-	300	-
Interest and fiscal charges . . . . .	11,895	-	-	-
Total governmental activities . . . . .	<u>9,278,276</u>	<u>1,011,484</u>	<u>2,289,920</u>	<u>166,654</u>
<b>Business-type activities:</b>				
Water. . . . .	2,786,308	2,891,279	-	-
Sewer. . . . .	2,400,777	2,522,810	-	-
Total business-type activities. . . . .	<u>5,187,085</u>	<u>5,414,089</u>	<u>-</u>	<u>-</u>
Total primary government. . . . .	<u>\$ 14,465,361</u>	<u>\$ 6,425,573</u>	<u>\$ 2,289,920</u>	<u>\$ 166,654</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 position . . . . .

**Net position at beginning of year. . . . .**

**Net position at end of year . . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (1,209,340)	\$ -	\$ (1,209,340)
(3,978,049)	-	(3,978,049)
(157,923)	-	(157,923)
(302,902)	-	(302,902)
(53,718)	-	(53,718)
(91,021)	-	(91,021)
(5,370)	-	(5,370)
(11,895)	-	(11,895)
<u>(5,810,218)</u>	<u>-</u>	<u>(5,810,218)</u>
-	104,971	104,971
-	122,033	122,033
<u>-</u>	<u>227,004</u>	<u>227,004</u>
<u>(5,810,218)</u>	<u>227,004</u>	<u>(5,583,214)</u>
514,679	-	514,679
100,688	-	100,688
4,616,108	-	4,616,108
677,591	-	677,591
19,896	-	19,896
41,226	-	41,226
184,365	36,561	220,926
<u>6,154,553</u>	<u>36,561</u>	<u>6,191,114</u>
344,335	263,565	607,900
<u>14,143,586</u>	<u>28,814,831</u>	<u>42,958,417</u>
<u>\$ 14,487,921</u>	<u>\$ 29,078,396</u>	<u>\$ 43,566,317</u>

**CITY OF FOSTORIA, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012

	<u>General</u>	<u>Fostoria Revolving Loan</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents. . . . .	\$ 720,421	\$ 705,358	\$ 1,649,865	\$ 3,075,644
Cash and cash equivalents with fiscal agent. . . . .	-	-	5,749	5,749
Receivables:				
Income taxes . . . . .	955,786	-	-	955,786
Real and other taxes. . . . .	671,050	-	107,895	778,945
Accounts. . . . .	122,235	-	-	122,235
Due from other governments . . . . .	160,930	-	830,122	991,052
Special assessments . . . . .	-	-	191,317	191,317
Loans . . . . .	-	1,424,878	-	1,424,878
Interfund loans receivable . . . . .	17,450	-	-	17,450
Materials and supplies inventory . . . . .	-	-	105,455	105,455
Payment in lieu of taxes . . . . .	-	-	15,860	15,860
Total assets . . . . .	<u>\$ 2,647,872</u>	<u>\$ 2,130,236</u>	<u>\$ 2,906,263</u>	<u>\$ 7,684,371</u>
<b>Liabilities:</b>				
Accounts payable. . . . .	\$ 47,792	\$ 481	\$ 75,972	\$ 124,245
Accrued wages and benefits . . . . .	94,807	-	6,695	101,502
Interfund loans payable. . . . .	-	-	17,450	17,450
Due to other governments . . . . .	193,814	-	20,452	214,266
Pension obligation payable . . . . .	157,546	-	2,837	160,383
Total liabilities . . . . .	<u>493,959</u>	<u>481</u>	<u>123,406</u>	<u>617,846</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year . . . . .	584,923	-	94,212	679,135
Delinquent property tax revenue not available . . . . .	84,951	-	13,683	98,634
Special assessments revenue not available . . . . .	-	-	191,317	191,317
Income tax revenue not available. . . . .	417,629	-	-	417,629
Nonexchange transactions revenue not available. . . . .	112,684	-	579,725	692,409
Payment in lieu of taxes levied for the next fiscal year. . . . .	-	-	15,860	15,860
Total deferred inflows of resources . . . . .	<u>1,200,187</u>	<u>-</u>	<u>894,797</u>	<u>2,094,984</u>
<b>Fund balances:</b>				
Nonspendable . . . . .	-	-	125,299	125,299
Restricted . . . . .	-	2,129,755	1,458,672	3,588,427
Committed. . . . .	-	-	304,089	304,089
Assigned. . . . .	953,726	-	-	953,726
Total fund balances . . . . .	<u>953,726</u>	<u>2,129,755</u>	<u>1,888,060</u>	<u>4,971,541</u>
Total liabilities, deferred inflows of resources and fund balances . . . . .	<u>\$ 2,647,872</u>	<u>\$ 2,130,236</u>	<u>\$ 2,906,263</u>	<u>\$ 7,684,371</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012

<b>Total governmental fund balances</b>		\$ 4,971,541
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,802,198
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 98,634	
Income taxes	417,629	
Special assessments	191,317	
Intergovernmental	692,409	
Total		1,399,989
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.		(26)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Special assessment bonds payable	158,930	
Capital lease payable	69,046	
Compensated absences payable	1,273,678	
OPWC loans payable	132,562	
Equipment loan payable	51,565	
Total		(1,685,781)
<b>Net position of governmental activities</b>		<b>\$ 14,487,921</b>

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, 2012

	<u>General</u>	<u>Fostoria Revolving Loan</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 4,697,624	\$ -	\$ -	\$ 4,697,624
Property and other taxes . . . . .	574,379	-	102,444	676,823
Charges for services . . . . .	860,568	-	54,033	914,601
Licenses and permits . . . . .	18,638	-	-	18,638
Fines and forfeitures . . . . .	8,150	-	14,381	22,531
Intergovernmental . . . . .	674,838	-	1,756,911	2,431,749
Special assessments . . . . .	-	-	55,536	55,536
Investment income . . . . .	19,743	31,375	418	51,536
Rental income . . . . .	-	-	3,100	3,100
Refunds and reimbursements . . . . .	76,693	-	39,774	116,467
Contributions and donations . . . . .	8,134	-	260,546	268,680
Other . . . . .	8,837	10,523	190,368	209,728
Total revenues . . . . .	<u>6,947,604</u>	<u>41,898</u>	<u>2,477,511</u>	<u>9,467,013</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,412,081	-	71,998	1,484,079
Security of persons and property . . . . .	4,278,281	-	661,419	4,939,700
Public health and welfare . . . . .	172,527	-	106,548	279,075
Transportation . . . . .	133,523	-	729,255	862,778
Community environment . . . . .	97,171	29,405	654,460	781,036
Leisure time activity . . . . .	-	-	103,370	103,370
Other . . . . .	-	-	5,670	5,670
Capital outlay . . . . .	-	-	753,616	753,616
Debt service:				
Principal retirement . . . . .	-	-	118,089	118,089
Interest and fiscal charges . . . . .	-	-	12,789	12,789
Total expenditures . . . . .	<u>6,093,583</u>	<u>29,405</u>	<u>3,217,214</u>	<u>9,340,202</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>854,021</u>	<u>12,493</u>	<u>(739,703)</u>	<u>126,811</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets . . . . .	-	-	4,525	4,525
Transfers in . . . . .	-	-	635,484	635,484
Transfers (out) . . . . .	(570,000)	-	(65,484)	(635,484)
Loan proceeds . . . . .	-	-	51,565	51,565
Capital lease transaction . . . . .	-	-	93,720	93,720
Total other financing sources (uses) . . . . .	<u>(570,000)</u>	<u>-</u>	<u>719,810</u>	<u>149,810</u>
Net change in fund balances . . . . .	284,021	12,493	(19,893)	276,621
<b>Fund balances at beginning of year . . . . .</b>	<u>669,705</u>	<u>2,117,262</u>	<u>1,907,953</u>	<u>4,694,920</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 953,726</u>	<u>\$ 2,129,755</u>	<u>\$ 1,888,060</u>	<u>\$ 4,971,541</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, 2012

<b>Net change in fund balances - total governmental funds</b>	\$	276,621
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay	\$ 653,227	
Depreciation expense	<u>(667,624)</u>	(14,397)
 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.		
		(6,250)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(66,866)	
Income taxes	(81,516)	
Special assessments	(31,886)	
Intergovernmental	<u>335,866</u>	
Total		155,598
 Proceeds of loans and capital leases are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position.		
		(145,285)
 Repayment of bond, lease and loan principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		118,089
 In the statement of activities, interest is accrued on outstanding bonds and leases, whereas in governmental funds, an interest expenditure is reported when due.		
		894
 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.		
		<u>(40,935)</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u><u>344,335</u></u></b>

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 4,554,864	\$ 4,565,295	\$ 4,779,427	\$ 214,132
Property and other taxes . . . . .	547,271	548,524	574,252	25,728
Charges for services . . . . .	748,146	749,860	785,031	35,171
Licenses and permits . . . . .	20,333	20,379	21,335	956
Fines and forfeitures . . . . .	7,767	7,785	8,150	365
Intergovernmental . . . . .	665,717	667,242	698,538	31,296
Investment income . . . . .	18,814	18,858	19,742	884
Refunds and reimbursements . . . . .	73,090	73,257	76,693	3,436
Contributions and donations . . . . .	7,752	7,770	8,134	364
Other . . . . .	8,422	8,441	8,837	396
<b>Total revenues . . . . .</b>	<b>6,652,176</b>	<b>6,667,411</b>	<b>6,980,139</b>	<b>312,728</b>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative and executive . . . . .	984,638	1,108,740	1,018,737	90,003
Judicial . . . . .	501,181	451,025	427,652	23,373
Security of persons and property . . . . .	4,048,312	4,332,648	4,355,928	(23,280)
Public health and welfare . . . . .	157,777	169,533	173,550	(4,017)
Transportation . . . . .	64,198	62,722	57,074	5,648
Community environment . . . . .	43,695	43,096	34,326	8,770
<b>Total expenditures . . . . .</b>	<b>5,799,801</b>	<b>6,167,764</b>	<b>6,067,267</b>	<b>100,497</b>
Excess of revenues over expenditures . . . . .	852,375	499,647	912,872	413,225
<b>Other financing (uses):</b>				
Transfers (out) . . . . .	(600,000)	(600,000)	(630,000)	(30,000)
<b>Total other financing (uses) . . . . .</b>	<b>(600,000)</b>	<b>(600,000)</b>	<b>(630,000)</b>	<b>(30,000)</b>
Net change in fund balances . . . . .	252,375	(100,353)	282,872	383,225
<b>Fund balance (deficit) at beginning of year . . . . .</b>	<b>(153,272)</b>	<b>(153,272)</b>	<b>(153,272)</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>20,773</b>	<b>20,773</b>	<b>20,773</b>	<b>-</b>
<b>Fund balance (deficit) at end of year . . . . .</b>	<b>\$ 119,876</b>	<b>\$ (232,852)</b>	<b>\$ 150,373</b>	<b>\$ 383,225</b>

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)  
 FOSTORIA REVOLVING LOAN FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Investment income . . . . .	\$ 311	\$ 311	\$ 481	\$ 170
Other . . . . .	145,189	145,189	224,680	79,491
Total revenues . . . . .	<u>145,500</u>	<u>145,500</u>	<u>225,161</u>	<u>79,661</u>
<b>Expenditures:</b>				
Current:				
Community environment . . . . .	30,650	32,150	29,555	2,595
Total expenditures . . . . .	<u>30,650</u>	<u>32,150</u>	<u>29,555</u>	<u>2,595</u>
Net change in fund balances . . . . .	114,850	113,350	195,606	82,256
Fund balances at beginning of year . . . . .	509,121	509,121	509,121	-
Prior year encumbrances appropriated . . . . .	150	150	150	-
Fund balance at end of year . . . . .	<u>\$ 624,121</u>	<u>\$ 622,621</u>	<u>\$ 704,877</u>	<u>\$ 82,256</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2012

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and cash equivalents. . . . .	\$ 46,305	\$ 1,278,718	\$ 1,325,023
Receivables (net of allowance for uncollectibles):			
Accounts. . . . .	558,556	390,508	949,064
Materials and supplies inventory . . . . .	26,692	17,360	44,052
Total current assets . . . . .	<u>631,553</u>	<u>1,686,586</u>	<u>2,318,139</u>
Noncurrent assets:			
Capital assets:			
Land . . . . .	8,121,300	308,238	8,429,538
Depreciable capital assets, net . . . . .	10,472,807	12,797,404	23,270,211
Total capital assets, net. . . . .	<u>18,594,107</u>	<u>13,105,642</u>	<u>31,699,749</u>
Total assets. . . . .	<u>19,225,660</u>	<u>14,792,228</u>	<u>34,017,888</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable. . . . .	41,932	21,734	63,666
Accrued wages and benefits . . . . .	19,943	18,495	38,438
Due to other governments . . . . .	58,157	49,633	107,790
Pension obligation payable . . . . .	15,428	14,749	30,177
Accrued interest payable . . . . .	13,038	44,245	57,283
Current portion of compensated absences . . . . .	94,094	49,684	143,778
Current portion of OWDA loans . . . . .	59,202	377,548	436,750
Current portion of OPWC loans. . . . .	34,279	19,577	53,856
Total current liabilities. . . . .	<u>336,073</u>	<u>595,665</u>	<u>931,738</u>
Long-term liabilities:			
OWDA loans . . . . .	1,417,929	1,964,029	3,381,958
OPWC loans. . . . .	254,595	162,979	417,574
Compensated absences. . . . .	135,862	72,360	208,222
Total long-term liabilities . . . . .	<u>1,808,386</u>	<u>2,199,368</u>	<u>4,007,754</u>
Total liabilities . . . . .	<u>2,144,459</u>	<u>2,795,033</u>	<u>4,939,492</u>
<b>Net position:</b>			
Net investment in capital assets. . . . .	16,828,102	10,581,509	27,409,611
Unrestricted. . . . .	253,099	1,415,686	1,668,785
Total net position. . . . .	<u>\$ 17,081,201</u>	<u>\$ 11,997,195</u>	<u>\$ 29,078,396</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Operating revenues:</b>			
Charges for services . . . . .	\$ 2,891,279	\$ 2,522,810	\$ 5,414,089
Other . . . . .	33,356	3,205	36,561
Total operating revenues. . . . .	<u>2,924,635</u>	<u>2,526,015</u>	<u>5,450,650</u>
<b>Operating expenses:</b>			
Personal services . . . . .	1,517,377	1,064,304	2,581,681
Contract services. . . . .	94,553	357,495	452,048
Materials and supplies. . . . .	350,129	145,558	495,687
Utilities . . . . .	236,842	346,943	583,785
Depreciation. . . . .	389,093	367,223	756,316
Other . . . . .	171,571	330	171,901
Total operating expenses. . . . .	<u>2,759,565</u>	<u>2,281,853</u>	<u>5,041,418</u>
Operating income. . . . .	<u>165,070</u>	<u>244,162</u>	<u>409,232</u>
<b>Nonoperating (expenses):</b>			
Interest expense and fiscal charges. . . . .	(26,743)	(118,924)	(145,667)
Total nonoperating (expenses) . . . . .	<u>(26,743)</u>	<u>(118,924)</u>	<u>(145,667)</u>
Change in net position . . . . .	138,327	125,238	263,565
<b>Net position at beginning of year. . . . .</b>	<u>16,942,874</u>	<u>11,871,957</u>	<u>28,814,831</u>
<b>Net position at end of year . . . . .</b>	<u>\$ 17,081,201</u>	<u>\$ 11,997,195</u>	<u>\$ 29,078,396</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, 2012

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers . . . . .	\$ 2,821,069	\$ 2,567,913	\$ 5,388,982
Cash received from other operations . . . . .	33,356	3,205	36,561
Cash payments for personal services . . . . .	(1,454,999)	(1,045,809)	(2,500,808)
Cash payments for contractual services . . . . .	(95,797)	(354,572)	(450,369)
Cash payments for materials and supplies . . . . .	(366,110)	(153,435)	(519,545)
Cash payments for utilities . . . . .	(238,799)	(348,433)	(587,232)
Cash payments for other expenses . . . . .	(156,900)	(330)	(157,230)
Net cash provided by operating activities. . . . .	<u>541,820</u>	<u>668,539</u>	<u>1,210,359</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets . . . . .	(683,824)	(496,328)	(1,180,152)
Loan issuance. . . . .	211,739	230,960	442,699
Principal retirement on bonds and loans . . . . .	(119,844)	(431,109)	(550,953)
Interest paid on bonds and loans . . . . .	(28,060)	(105,182)	(133,242)
Net cash used in capital and related financing activities. . . . .	<u>(619,989)</u>	<u>(801,659)</u>	<u>(1,421,648)</u>
Net (decrease) in cash and cash equivalents . . . . .	(78,169)	(133,120)	(211,289)
<b>Cash and cash equivalents at beginning of year. . . . .</b>	<u>124,474</u>	<u>1,411,838</u>	<u>1,536,312</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$ 46,305</u>	<u>\$ 1,278,718</u>	<u>\$ 1,325,023</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income. . . . .	\$ 165,070	\$ 244,162	\$ 409,232
Adjustments:			
Depreciation. . . . .	389,093	367,223	756,316
Changes in assets and liabilities:			
Decrease/(increase) in materials and supplies inventory. . . . .	12,729	(1,451)	11,278
Decrease/(increase) in accounts receivable . . . . .	(70,210)	45,103	(25,107)
(Decrease) in accounts payable . . . . .	(31,253)	(8,955)	(40,208)
Increase/(decrease) in accrued wages and benefits . . . . .	168	(3,222)	(3,054)
(Decrease) in pension obligation payable. . . . .	(484)	(634)	(1,118)
Increase/(decrease) in due to other governments. . . . .	4,916	(1,098)	3,818
Increase in compensated absences payable . . . . .	71,791	27,411	99,202
Net cash provided by operating activities . . . . .	<u>\$ 541,820</u>	<u>\$ 668,539</u>	<u>\$ 1,210,359</u>

At December 31, 2012, the water fund purchased \$28,249 in capital assets on account.  
 At December 31, 2012, the sewer fund purchased \$14,059 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 DECEMBER 31, 2012

	<u>Private-Purpose Trust</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 11,645	\$ 2,400
Cash in segregated accounts . . . . .	-	59,891
	<hr/>	<hr/>
Total assets. . . . .	11,645	\$ 62,291
	<hr/>	<hr/>
<b>Liabilities:</b>		
Accounts payable . . . . .	268	\$ -
Due to other governments . . . . .	-	59,891
Undistributed monies. . . . .	-	2,400
	<hr/>	<hr/>
Total liabilities . . . . .	268	\$ 62,291
	<hr/>	<hr/>
<b>Net position:</b>		
Held in trust for other purposes . . . . .	11,377	
	<hr/>	
Total net position . . . . .	\$ 11,377	
	<hr/>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<b>Private-Purpose Trust</b>
<b>Additions:</b>	
Interest . . . . .	\$ 17
Total additions . . . . .	17
<b>Reductions:</b>	
Other . . . . .	755
Total deductions . . . . .	755
Change in net position . . . . .	(738)
<b>Net position at beginning of year . . . . .</b>	<b>12,115</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 11,377</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**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 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.

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.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

*RELATED ORGANIZATION*

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

**B. Basis of Presentation - Fund Accounting**

The City's BFS consist of government-wide statements, including a statement of net position 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 position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

***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, 2012

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

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 deferred outflows and liabilities and deferred inflows is reported as fund balance. The following are the City's only major governmental funds:

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

Fostoria revolving loan fund - The Fostoria revolving loan fund is used to account for other revenues restricted for community environment expenditures.

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

**Proprietary Funds** - Proprietary fund reporting focuses on changes in net position, 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, 2012

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

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

***Fund Financial Statements*** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows 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 deferred outflows and all liabilities and deferred inflows associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**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 inflows and in the presentation of expenses versus expenditures.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

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

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

**Deferred Inflows of Resources and Deferred Outflows of Resources** - A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations, have been recorded as deferred inflows on both the government-wide and fund financial statements. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012, are recorded as deferred inflows on the governmental fund financial statements.

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

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

**F. Budgetary Data**

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

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

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

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

**Estimated Resources** - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the original and final amended official certificates of estimated resources issued during 2012.

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

**G. Cash and Cash Equivalents**

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

During 2012, 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, 2012.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2012 amounted to \$19,743, which included \$12,981 assigned from other funds of the City.

For purposes of the statement of cash flows and for presentation on the statement of net position, 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, 2012 was \$5,749. 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 nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of current assets.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

**I. Capital Assets**

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

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

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

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

**J. Compensated Absences**

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

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

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

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Interfund Balances**

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

**M. Interfund Activity**

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

**N. Fund Balance**

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

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

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

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

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

**O. Loans Receivable**

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

**P. 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.

**Q. 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.

**R. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position invested in capital assets, 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 position 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 position is available.

**S. Bond Discounts and Premiums**

Material discounts and premiums 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**

**Change in Accounting Principles**

For 2012, the City has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 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, 2012

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the City.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the City's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

**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;

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; 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, \$59,891 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, 2012, \$5,749 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, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Deposits with Financial Institutions**

At December 31, 2012, the carrying amount of all City deposits, including cash with fiscal agent and cash in segregated accounts, was \$3,702,361. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2012, \$3,367,884 of the City’s bank balance of \$3,927,775 was exposed to custodial risk as discussed below, while \$559,891 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, 2012, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity 6 months or less
STAR Ohio	\$ <u>777,991</u>	\$ <u>777,991</u>

*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 City Auditor or qualified trustee.

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ <u>777,991</u>	<u>100.00</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**E. Reconciliation of Cash and Investments to the Statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,702,361
Investments	<u>777,991</u>
Total	<u>\$ 4,480,352</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,081,393
Business-type activities	1,325,023
Private-purpose funds	11,645
Agency funds	<u>62,291</u>
Total	<u>\$ 4,480,352</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund transfers for the year ended December 31, 2012, 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	\$ 570,000
	 Nonmajor
	<u>governmental funds</u>
Nonmajor governmental funds	\$ 65,484

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, 2012, as reported on the fund financial statements:

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

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.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County 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. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Fostoria. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes has been offset by a deferred inflow 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 a deferred inflow.

The full tax rate applied to real property and tangible personal property for the year ended December 31, 2012 were as follows:

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 6 - PROPERTY TAXES - (Continued)**

<u>Real property</u>	
Residential/agricultural	\$ 103,566,980
Commercial/industrial/mineral	45,094,020
 <u>Public utility</u>	
Real	245,180
Personal	<u>8,209,000</u>
Total assessed value	<u><u>\$ 157,115,180</u></u>

**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 2012 was \$4,697,624 as reported on the fund financial statements.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2012, consisted of taxes, accounts (billings for user charged services), payment in lieu of taxes, 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, 2012, as well as intended to finance 2012 operations.

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

**Governmental activities:**

Income taxes	\$ 955,786
Real and other taxes	778,945
Accounts	122,235
Payment in lieu of taxes	15,860
Due from other governments	991,052
Special assessments	191,317
Loans	1,424,878

**Business-type activities:**

Accounts	949,064
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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.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**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 2012, there were loans outstanding to businesses with a total principal balance due of \$1,424,878.

**NOTE 10 - CAPITAL ASSETS**

<b><u>Governmental activities:</u></b>	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,890,656	\$ -	\$ -	\$ 1,890,656
Total capital assets, not being depreciated	<u>1,890,656</u>	<u>-</u>	<u>-</u>	<u>1,890,656</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	600,180	-	-	600,180
Buildings	7,335,701	58,722	(8,486)	7,385,937
Machinery and equipment	2,075,555	113,003	(11,637)	2,176,921
Vehicles	2,677,558	123,843	(12,760)	2,788,641
Infrastructure	<u>10,039,357</u>	<u>357,659</u>	<u>(2,194,198)</u>	<u>8,202,818</u>
Total capital assets, being depreciated	<u>22,728,351</u>	<u>653,227</u>	<u>(2,227,081)</u>	<u>21,154,497</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(377,220)	(14,699)	-	(391,919)
Buildings	(5,747,098)	(108,985)	8,486	(5,847,597)
Machinery and equipment	(1,832,188)	(74,104)	5,387	(1,900,905)
Vehicles	(1,594,236)	(157,887)	12,760	(1,739,363)
Infrastructure	<u>(5,245,420)</u>	<u>(311,949)</u>	<u>2,194,198</u>	<u>(3,363,171)</u>
Total accumulated depreciation	<u>(14,796,162)</u>	<u>(667,624)</u>	<u>2,220,831</u>	<u>(13,242,955)</u>
Total capital assets, being depreciated, net	<u>7,932,189</u>	<u>(14,397)</u>	<u>(6,250)</u>	<u>7,911,542</u>
Government-type activities capital assets, net	<u>\$ 9,822,845</u>	<u>\$ (14,397)</u>	<u>\$ (6,250)</u>	<u>\$ 9,802,198</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 10 - CAPITAL ASSETS - (Continued)**

<b><u>Business-type activities:</u></b>	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 8,429,538	\$ -	\$ -	\$ 8,429,538
Total capital assets, not being depreciated	<u>8,429,538</u>	<u>-</u>	<u>-</u>	<u>8,429,538</u>
<i>Capital assets, being depreciated:</i>				
Buildings	14,313,513	-	-	14,313,513
Machinery and equipment	2,384,503	200,214	-	2,584,717
Vehicles	888,665	64,973	-	953,638
Infrastructure	<u>22,922,070</u>	<u>941,878</u>	<u>(63,500)</u>	<u>23,800,448</u>
Total capital assets, being depreciated	<u>40,508,751</u>	<u>1,207,065</u>	<u>(63,500)</u>	<u>41,652,316</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(6,104,794)	(222,878)	-	(6,327,672)
Machinery and equipment	(1,959,023)	(49,150)	-	(2,008,173)
Vehicles	(696,654)	(82,363)	-	(779,017)
Infrastructure	<u>(8,922,568)</u>	<u>(408,175)</u>	<u>63,500</u>	<u>(9,267,243)</u>
Total accumulated depreciation	<u>(17,683,039)</u>	<u>(762,566)</u>	<u>63,500</u>	<u>(18,382,105)</u>
Total capital assets, being depreciated, net	<u>22,825,712</u>	<u>444,499</u>	<u>-</u>	<u>23,270,211</u>
Business-type activities capital assets, net	<u>\$ 31,255,250</u>	<u>\$ 444,499</u>	<u>\$ -</u>	<u>\$ 31,699,749</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 10 - CAPITAL ASSETS - (Continued)**

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

**Governmental activities:**

General government	\$ 7,471
Security of persons and property	172,955
Public health and welfare	21,995
Transportation	422,641
Community environment	2,395
Leisure time activity	<u>46,417</u>
Total depreciation expense - governmental activities	<u>\$ 673,874</u>

**Business-type activities:**

Water	\$ 389,093
Sewer	<u>367,223</u>
Total depreciation expense - business-type activities	<u>\$ 756,316</u>

Depreciation expense for governmental and business-type activities differs from additions to accumulated depreciation during 2012 due to the transfer of assets with a cost of \$6,250 and accumulated depreciation of \$6,250.

**NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

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

These leases meet the criteria of a capital lease as defined by GASB, 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 position in the amount of \$338,917. Accumulated depreciation as of December 31, 2012 was \$118,372, leaving a current book value of \$220,545. 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 position or enterprise fund, respectively.

Principal and interest payments in 2012 totaled \$76,767 and \$2,282, respectively, in the capital improvements fund, which is a nonmajor governmental fund.

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**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, 2012:

<u>Year Ending</u> <u>December 31,</u>	<u>Governmental</u> <u>Activities</u>
2013	\$ 24,675
2014	24,674
2015	14,633
2016	<u>14,634</u>
Total future minimum lease payments	\$ 78,616
Less: amount representing interest	<u>(9,570)</u>
Present value of future minimum lease payments	<u>\$ 69,046</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</u> <u>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, 2012

**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 2012, the following changes occurred in the City’s governmental long-term obligations:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/12</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>							
<u>OWPC loans payable:</u>							
OPWC - Kelly Storm Sewer	05/08/98	0%	\$ 52,893	\$ -	\$ (8,137)	\$ 44,756	\$ 8,138
OPWC - Circle Drive	12/1/00	0%	12,300	-	(2,050)	10,250	2,050
OPWC - Sandusky Sewer Pump	6/9/10	0%	<u>87,251</u>	<u>-</u>	<u>(9,695)</u>	<u>77,556</u>	<u>9,695</u>
Total OPWC loans			<u>152,444</u>	<u>-</u>	<u>(19,882)</u>	<u>132,562</u>	<u>19,883</u>
<u>Special assessment bonds:</u>							
Kelly Addition	07/23/98	5.95%	<u>180,370</u>	<u>-</u>	<u>(21,440)</u>	<u>158,930</u>	<u>22,765</u>
Total special assessment bonds			<u>180,370</u>	<u>-</u>	<u>(21,440)</u>	<u>158,930</u>	<u>22,765</u>
<u>Other long-term obligations:</u>							
Equipment note			-	51,565	-	51,565	10,313
Capital lease obligations			52,093	93,720	(76,767)	69,046	20,466
Compensated absences payable			<u>1,232,743</u>	<u>306,727</u>	<u>(265,792)</u>	<u>1,273,678</u>	<u>273,766</u>
Total other long-term obligations			<u>1,284,836</u>	<u>452,012</u>	<u>(342,559)</u>	<u>1,394,289</u>	<u>304,545</u>
Total governmental activities			<u>\$ 1,617,650</u>	<u>\$ 452,012</u>	<u>\$ (383,881)</u>	<u>\$ 1,685,781</u>	<u>\$ 347,193</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

**B.** During 2012, the following changes occurred in the City's business-type activities long-term obligations.

	Issue Date	Interest Rate	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Amounts Due in One Year
<b>Business-type activities:</b>							
<u>OWDA loans payable:</u>							
OWDA loan #3240	10/15/00	4.55%	\$ 616,113	\$ -	\$ (56,536)	\$ 559,577	\$ 59,202
OWDA loan #5426	11/19/09	0.00%	967,756	-	(50,202)	917,554	-
OWDA loan #2262	07/01/95	4.56%	1,337,840	-	(360,902)	976,938	377,548
OWDA loan #5702	03/16/06	3.20%	1,266,557	156,190	(58,108)	1,364,639	-
Total OWDA loans			<u>4,188,266</u>	<u>156,190</u>	<u>(525,748)</u>	<u>3,818,708</u>	<u>436,750</u>
<u>OPWC loans payable:</u>							
Fremont Street Pump Station	05/10/01	0.00%	25,736	-	(4,680)	21,056	4,679
CSO #1, Wood County	10/27/98	0.00%	8,617	-	(4,309)	4,308	4,309
Reservoir Rehabilitation	4/23/04	0.00%	30,832	-	(6,851)	23,981	6,851
Columbus Avenue CP15K	1/1/09	0.00%	85,532	-	(3,111)	82,421	3,111
Culbertson Street Water Tower			59,409	-	(6,254)	53,155	6,254
North Poplar Street							
Sanitary Sewer and Waterline			-	74,770	-	74,770	7,478
Zeller Road South Water Tower							
Cleaning and Painting			-	196,743	-	196,743	19,674
Spruce Street Waterline improvements			-	14,996	-	14,996	1,500
Total OPWC loans			<u>210,126</u>	<u>286,509</u>	<u>(25,205)</u>	<u>471,430</u>	<u>53,856</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			252,798	239,039	(139,837)	352,000	144,032
Total other long-term obligations			<u>252,798</u>	<u>239,039</u>	<u>(139,837)</u>	<u>352,000</u>	<u>144,032</u>
Total business-type activities			<u>\$ 4,651,190</u>	<u>\$ 681,738</u>	<u>\$ (690,790)</u>	<u>\$ 4,642,138</u>	<u>\$ 634,638</u>

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

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

On April 20, 1995, the City defeased 1993 Sewage System Refunding and Improvement Bonds in the amount of \$6,160,000 with interest rates from 3.0% to 4.6%. The amount of defeased debt outstanding at December 31, 2012 is \$1,936,415. The bonds are in an irrevocable trust with an escrow agent to provide for all future debt service payments, and considered defeased.

On December 7, 2012, the City entered into a promissory note for fire hawk air masks respirator equipment in the amount of \$51,565. This note bears an interest rate of 3.00% and matures on December 7, 2017.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

On December 31, 1997, the City defeased 1989 Reservoir #6 Refinanced Bonds in the amount of \$2,360,000 with interest rates from 6.45% to 7.05%. There is no defeased debt outstanding at December 31, 2012. The proceeds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments.

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

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

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

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

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

The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction projects. The amounts due to the OWDA are payable solely from water and sewer fund revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2012, the City has outstanding borrowings of \$3,818,708. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. OWDA loan #5702 and #5426 are not closed out as of December 31, 2012. Future annual debt service principal and interest requirements for these loans, which have a balance of \$2,282,193 at December 31, 2012, are not available. The City has pledged future water and sewer revenues to repay OWDA loans. The loans are payable solely from water and sewer fund revenues and are payable through 2022. Annual principal and interest payments on the loans are expected to require 58.33 percent of net revenues. The total principal and interest remaining to be paid on the loans is \$1,721,370. Principal and interest paid for the current year were \$679,886 and total customer net revenues were \$1,165,548.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

**D.** A summary of the City's future debt service requirements as of December 31, 2012 follows:

Future Payment Due In	Business-Type OWDA Loans			Business-Type OPWC Loans	Governmental OPWC Loans
	Principal	Interest	Total	Principal Only	Principal Only
2013	\$ 436,750	\$ 65,688	\$ 502,438	\$ 53,856	\$ 19,883
2014	456,952	45,484	502,436	49,547	19,883
2015	269,344	24,171	293,515	52,972	19,882
2016	67,976	16,621	84,597	42,694	19,882
2017	71,180	13,416	84,596	40,355	19,883
2018 - 2022	234,313	19,475	253,788	180,686	33,149
2023 - 2027	-	-	-	15,553	-
2028 - 2032	-	-	-	15,551	-
2033 - 2037	-	-	-	15,551	-
2038 - 2039	-	-	-	4,665	-
<b>Total</b>	<b>\$ 1,536,515</b>	<b>\$ 184,855</b>	<b>\$ 1,721,370</b>	<b>\$ 471,430</b>	<b>\$ 132,562</b>

Future Payment Due In	Governmental Special Assessment Bonds			Equipment Loan		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 22,765	\$ 9,121	\$ 31,886	\$ 10,313	\$ 961	\$ 11,274
2014	24,140	7,747	31,887	10,313	960	11,273
2015	25,597	6,289	31,886	10,313	960	11,273
2016	27,129	4,758	31,887	10,313	960	11,273
2017	28,780	3,105	31,885	10,313	960	11,273
2018	30,519	1,367	31,886	-	-	-
<b>Total</b>	<b>\$ 158,930</b>	<b>\$ 32,387</b>	<b>\$ 191,317</b>	<b>\$ 51,565</b>	<b>\$ 4,801</b>	<b>\$ 56,366</b>

**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, 2012 the City's total voted debt margin was \$16,519,980 and the unvoted debt margin was \$8,641,335; both amounts include available funds of \$22,886.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 14 - RISK MANAGEMENT**

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

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

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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, 2012 and 2011 (the latest information available):

<u>Casualty &amp; Property Coverage</u>	<u>2012</u>	<u>2011</u>
Assets	\$34,389,569	\$33,362,404
Liabilities	<u>(14,208,353)</u>	<u>(14,187,273)</u>
Retained earnings	<u>\$20,181,216</u>	<u>\$19,175,131</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the City's share of these unpaid claims collectible in future years is approximately \$131,000.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 14 - RISK MANAGEMENT - (Continued)**

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>	
<u>2012</u>	<u>2011</u>
\$152,831	\$148,748

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to 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 PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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

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

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

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

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from 2011.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**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.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 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 2012, member and contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.00% for members. The City's contribution rate for 2012 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2012 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$285,766, \$299,629, and \$280,521, respectively; 90.58% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 pension liability has been reported as pension obligation payable on the basic financial statements. Contributions to the member-directed plan for 2012 were \$5,119 made by the City and \$3,656 made by the plan members.

**B. Ohio Police and Fire Pension Fund**

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 15 - PENSION PLANS – (Continued)**

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2012, 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 \$187,720 and \$193,351 for the year ended December 31, 2012, \$173,358 and \$190,923 for the year ended December 31, 2011, and \$171,859 and \$201,834, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 75.68% has been contributed for police and 75.68% has been contributed for firefighters for 2012. The remaining 2012 pension liability has been reported as pension obligation payable on the basic financial statements.

**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 visiting <https://www.opers.org/investments/cafr.shtml>, 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 administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2012 was 6.05%.

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.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$115,450, \$121,014, and \$159,444, respectively; 90.58% has been contributed for 2012, 2011 and 2010. The remaining 2012 post-employment health care benefits liability has been reported as pension obligation payable on the basic financial statements.

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

**B. Ohio Police and Fire Pension Fund**

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

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

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

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

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$99,381 and \$75,659 for the year ended December 31, 2012, \$91,778 and \$74,709 for the year ended December 31, 2011, and \$90,984 and \$78,979, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 75.68% has been contributed for police and 75.68% has been contributed for firefighters for 2012. The remaining 2012 post-employment health care benefits liability has been reported as pension obligation payable on the basic financial statements.

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

**Net Change in Fund Balance**

	<u>General Fund</u>	Fostoria Revolving <u>Loan Fund</u>
Budget basis	\$ 282,872	\$ 195,606
Net adjustment for revenue accruals	(32,536)	(183,263)
Net adjustment for expenditure accruals	58,326	(331)
Funds budgeted elsewhere	(49,294)	-
Adjustment for encumbrances	<u>24,653</u>	<u>481</u>
GAAP basis	<u>\$ 284,021</u>	<u>\$ 12,493</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the health insurance fund, the loop road project fund, the community development fund, the charter government fund and the job creation grant program fund.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 18 - FUND BALANCE**

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

Fund balance	General	Fostoria Revolving Loan Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>				
Materials and supplies inventory	\$ -	\$ -	\$ 105,455	\$ 105,455
Permanent fund	-	-	19,844	19,844
<b>Total nonspendable</b>	<b>-</b>	<b>-</b>	<b>125,299</b>	<b>125,299</b>
<b>Restricted:</b>				
General government	-	-	11,253	11,253
Security of persons and property	-	-	134,300	134,300
Public health and welfare	-	-	200,691	200,691
Transportation	-	-	579,392	579,392
Community environment	-	2,129,755	163,239	2,292,994
Other	-	-	46,145	46,145
CDBG VOCA/revolving loan	-	-	213,982	213,982
Iron triangle rail park	-	-	31,424	31,424
Indigent drivers interlock	-	-	17,171	17,171
Plaza drive special assessment	-	-	19,355	19,355
Streetscape special assessment	-	-	3,531	3,531
Sewer and water extension	-	-	38,189	38,189
<b>Total restricted</b>	<b>-</b>	<b>2,129,755</b>	<b>1,458,672</b>	<b>3,588,427</b>
<b>Committed:</b>				
General government	-	-	38,903	38,903
Fostoria community trust	-	-	2,668	2,668
General capital improvements	-	-	110,765	110,765
Street maintenance capital	-	-	12,796	12,796
Infrastructure capital improvement	-	-	138,957	138,957
<b>Total committed</b>	<b>-</b>	<b>-</b>	<b>304,089</b>	<b>304,089</b>
<b>Assigned:</b>				
General government	10,878	-	-	10,878
Security of persons and property	3,110	-	-	3,110
Transportation	392,145	-	-	392,145
Community and environment	3,593	-	-	3,593
Subsequent year appropriation	544,000	-	-	544,000
<b>Total assigned</b>	<b>953,726</b>	<b>-</b>	<b>-</b>	<b>953,726</b>
<b>Total fund balances</b>	<b>\$ 953,726</b>	<b>\$ 2,129,755</b>	<b>\$ 1,888,060</b>	<b>\$ 4,971,541</b>

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 19 - OTHER COMMITMENTS**

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 21,503
Other governmental	<u>82,436</u>
Total	<u>\$ 103,939</u>

**NOTE 20 - CONTINGENCIES**

**Litigation**

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

**NOTE 21 - 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, 2012, is \$1,002,595. The City is not obligated in any manner for repayment of the debt. Accordingly, the debt is not reported as a liability in the accompanying financial statements.

**City of Fostoria  
Seneca County  
Schedule of Federal Awards Expenditures  
For the Year Ending December 31, 2012**

Federal Grantor/Pass Through Grantor/Program Title	Pass Through Entity Number	CFDA Number	Federal Expenditures
<b><u>U.S. Department of Transportation</u></b>			
Direct Program Airport Improvement Grant	N/A	20.106	\$ 39,542
<b>Total U.S. Department of Transportation</b>			39,542
<b><u>U.S. Department of Homeland Security</u></b>			
Direct Program Staffing for Adequate Fire and Emergency Response (SAFER) Grant	N/A	97.083	514,415
<b>Total U.S. Department of Homeland Security</b>			514,415
<b><u>U.S. Department of Justice</u></b>			
Direct Program COPS Hiring Recovery Program - ARRA	N/A	16.710	63,795
<b>Total U.S. Department of Justice</b>			63,795
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Pass through Ohio Department of Development, Hancock County Regional Planning Commission Community Development Block Grant			
Community Development Block Grant - 2011	A-F-11-2BN-1	14.228	72,690
Community Development Block Grant - CHIP 2010	A-C-10-2BN-1	14.228	102,739
Total Community Development Block Grant			175,429
Home Investment Partnerships Program - CHIP 2010	A-C-10-2BN-2	14.239	283,760
<b>Total U.S. Department of Housing and Urban Development</b>			459,189
<b><u>U.S. Department of Health &amp; Human Services</u></b>			
Pass through Ohio Office of Criminal Justice Services Violence Protection Program	N/A	93.671	47,663
<b>Total U.S. Department of Health &amp; Human Services</b>			47,663
<b>Total Federal Awards</b>			<b>\$ 1,124,604</b>

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, 2012**

**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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*Certified Public Accountants*

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, business activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County (the City) as of and for the year ended December 31, 2012 and the related notes to the financial statements and have issued our report thereon dated August 30, 2013, wherein we noted the City implemented GASB Statement Nos. 63 and 65.

***Internal Control Over Financial Reporting***

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-02 described in the accompanying schedule of findings to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2012-01.

We also noted certain matters not requiring inclusion in this report to the City's management in a separate letter dated August 30, 2013.

***Entity's Response to Findings***

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

***Purpose of this Report***

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



***Charles E. Harris and Associates, Inc.***  
August 30, 2013

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

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

To the City Council:

***Report on Compliance for Each Major Federal Program***

We have audited the City of Fostoria's (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the City's major federal programs for the year ended December 31, 2012. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the City's major federal programs.

***Management's Responsibility***

The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to opine on the City's compliance for the City's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal 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 our audit provides a reasonable basis for our compliance opinion on the City's major programs. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on the Major Federal Program***

In our opinion, the City complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal programs for the year ended December 31, 2012.

***Report on Internal Control Over Compliance***

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2012-03 to be a material weakness.

The City's response to our internal control over compliance finding is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Federal Awards Expenditures Required by OMB Circular A-133***

We have also audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fostoria (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our unmodified report thereon dated August 30, 2013. We conducted our audit to opine on the City's basic financial statements. The accompanying Schedule of Federal Awards Expenditures (Schedule) presents additional analysis required by the 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. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records management used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



**CHARLES E. HARRIS & ASSOCIATES, INC.**  
August 30, 2013

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

**CITY OF FOSTORIA  
SENECA COUNTY  
DECEMBER 31, 2012**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unmodified
(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>	Yes
(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>	Unmodified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	Yes
(d)(1)(vii)	<i>Major Programs:</i>	SAFER Grant, CFDA #97.083 Home Investment Partnership Program, CFDA #14.239
(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, 2012**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-01 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, 2012, the following funds' appropriations exceeded total estimated resources:

General Fund (\$232,852)

Special Revenue Funds:

TIF (\$8,535)

Real Estate –Police/Fire Pension Fund (\$7,617)

Enterprise Fund:

Water Revenue (\$585,712)

We recommend that the City monitor appropriations and estimated resources on a regular basis to avoid appropriations from exceeding estimated resources.

Management's Response:

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

**FINDING NUMBER 2012-02 Material Weakness**

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

During 2012, the City closed out its books each month. However, it did not properly reconcile its total overall fund balances to its bank balances in all accounts. There were several adjustments required, mostly due to the computer company adjusting the system incorrectly and insurance claims payments not posted correctly. The financial statements and the City's records have been adjusted accordingly.

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

**CITY OF FOSTORIA  
SENECA COUNTY  
SCHEDULE OF FINDINGS – (continued)  
December 31, 2012**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued</b>
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**FINDING NUMBER 2012-02 Material Weakness - Continued**

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

Management's Response:

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

<b>3. FINDINGS RELATED TO FEDERAL AWARDS</b>
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Finding Number	2012-03
CFDA Title and Number	CDBG CFDA# 14.228 and Home Investment Partnerships CFDA# 14.239
Federal Award Year	2010 and 2011
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development and Hancock County Regional Planning Commission

**Material Weakness**

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

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

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

**CITY OF FOSTORIA  
SENECA COUNTY  
SCHEDULE OF FINDINGS – (continued)  
December 31, 2012**

<b>3. FINDINGS RELATED TO FEDERAL AWARDS (continued)</b>
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**Finding Number 2012-03 Material Weakness (continued)**

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

Management's Corrective Plan:

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2012-03	Management has assigned specific account codes and fund numbers to each federal grant projects and local matching share.	September 2013	Steve Garner, City Auditor

**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
December 31, 2012**

<b>FINDING NUMBER</b>	<b>FUNDING SUMMARY</b>	<b>FULLY CORRECTED?</b>	<b>Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain</b>
2011-FOST-01	Ohio Revised Code Section 5705.39 - Total Appropriations Exceeded Estimated Resources	No	Repeated as 2012-01
2011-FOST-02	Cash reconciliation	No	Repeated as 2012-02
2011-FOST-03	Ohio Revised Code Section 5705.10 Negative Cash Fund Balance	Yes	Finding no longer valid
2011-FOST-04	Classification of federal funds	No	Repeated as 2012-03



# Dave Yost • Auditor of State

**CITY OF FOSTORIA**

**SENECA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 14, 2013**