

CITY OF FOSTORIA
SENECA COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2013



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Fostoria, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

January 9, 2015

This page intentionally left blank.

**CITY OF FOSTORIA
SENECA COUNTY
AUDIT REPORT
For the Year Ending December 31, 2013**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	17
Statement of Activities.....	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	20
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non - GAAP) and Actual General Fund.....	24
Fostoria Revolving Loan Fund.....	25
Statement of Net Position - Proprietary Funds.....	26
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds.....	27
Statement of Cash Flows - Proprietary Funds.....	28
Statement of Fiduciary Net Position - Fiduciary Funds.....	29
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	30
Notes to the Basic Financial Statements.....	31
Schedule of Federal Awards Expenditures.....	63
Notes to the Schedule of Federal Awards Expenditures.....	64
Independent Auditor's Report on Internal Control Over Financial Report and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	65
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	67
Schedule of Findings.....	70
Schedule of Prior Audit Findings.....	72

This page intentionally left blank.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our audit 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, 2013, 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.

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 November 24, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
November 24, 2014

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- The total net position of the City increased \$488,558. Net position of governmental activities decreased \$356,390 or 2.46% from 2012 and net position of business-type activities increased \$844,948 or 2.91% from 2012.
- General revenues accounted for \$6,031,623 or 66.04% of total governmental activities revenue. Programspecific revenues accounted for \$3,102,236 or 33.96% of total governmental activities revenue.
- The City had \$9,478,463 in expenses related to governmental activities; \$3,102,236 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 \$6,031,623 were not adequate to cover the remaining expenses of the governmental activities of \$6,376,227.
- The general fund had revenues and other financing sources of \$6,606,415 in 2013. The expenditures and other financing uses of the general fund totaled \$6,566,729 in 2013. The net increase in fund balance for the general fund was \$39,686 or 4.16%.
- The Fostoria revolving loan fund had revenues of \$44,655 in 2013. The expenditures of the Fostoria revolving loan fund totaled \$31,525 in 2013. The net increase in fund balance for the Fostoria revolving loan fund was \$13,130 or 0.62%.
- The general capital improvements fund had \$1,079,728 in revenues and other financing sources in 2013. The expenditures of the general capital improvements fund totaled \$1,180,045 in 2013. The net decrease in fund balance for the general capital improvements fund was \$100,317 or 9.57%.
- Net position for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2013 by \$844,948. This increase in net position was due primarily to an increase in charges for services.
- In the general fund, the actual revenues and other financing sources were \$186,539 more than in the final budget and actual expenditures and other financing uses were \$215,476 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues and other financing sources were \$420,171 more than the original revenues and other financing sources. Budgeted expenditures and other financing uses increased \$181,782 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, 2013

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 2013?" The statement of net position and the statement of activities answer this question. These statements include all assets and deferred outflows of resources, liabilities and deferred inflows or resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Governmental activities - Most of the City's programs and services are reported here including police, fire 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, 2013

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, the Fostoria revolving loan fund and the general capital improvements 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 31-62 of this report.

CITY OF FOSTORIA, OHIO

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

Government-Wide Financial Analysis

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

	Net Position					
	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
<u>Assets</u>						
Current and other assets	\$ 7,342,131	\$ 7,666,921	\$ 3,263,804	\$ 2,318,139	\$ 10,605,935	\$ 9,985,060
Capital assets, net	<u>10,254,131</u>	<u>9,802,198</u>	<u>33,156,541</u>	<u>31,699,749</u>	<u>43,410,672</u>	<u>41,501,947</u>
Total assets	<u>17,596,262</u>	<u>17,469,119</u>	<u>36,420,345</u>	<u>34,017,888</u>	<u>54,016,607</u>	<u>51,487,007</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	2,045,257	1,685,781	6,235,212	4,642,138	8,280,469	6,327,919
Other liabilities	<u>662,765</u>	<u>600,422</u>	<u>261,789</u>	<u>297,354</u>	<u>924,554</u>	<u>897,776</u>
Total liabilities	<u>2,708,022</u>	<u>2,286,203</u>	<u>6,497,001</u>	<u>4,939,492</u>	<u>9,205,023</u>	<u>7,225,695</u>
<u>Deferred inflows of resources</u>						
Deferred inflows of resources	<u>756,709</u>	<u>694,995</u>	-	-	<u>756,709</u>	<u>694,995</u>
<u>Net Position</u>						
Net investment in capital assets	9,662,810	9,390,095	27,222,253	27,409,611	36,885,063	36,799,706
Restricted	4,367,419	4,438,312	-	-	4,367,419	4,438,312
Unrestricted	<u>101,302</u>	<u>659,514</u>	<u>2,701,091</u>	<u>1,668,785</u>	<u>2,802,393</u>	<u>2,328,299</u>
Total net position	<u>\$ 14,131,531</u>	<u>\$ 14,487,921</u>	<u>\$ 29,923,344</u>	<u>\$ 29,078,396</u>	<u>\$ 44,054,875</u>	<u>\$ 43,566,317</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2013, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$44,054,875. At year-end, net position was \$14,131,531 and \$29,923,344 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 80.37% of total assets. Capital assets include land, construction in progress, land improvements, buildings, machinery and equipment, vehicles, and infrastructure. Net investment in capital assets at December 31, 2013, were \$9,662,810 and \$27,222,253 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, \$4,367,419, 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 \$101,302.

CITY OF FOSTORIA, OHIO

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

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

	Governmental		Change in Net Position		Business-type		Total	
	Activities		Activities					
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues:								
Program revenues:								
Charges for services	\$ 781,575	\$ 1,011,484	\$ 6,064,568	\$ 5,414,089	\$ 6,846,143	\$ 6,425,573		
Operating grants and contributions	1,692,969	2,289,920	-	-	1,692,969	2,289,920		
Capital grants and contributions	627,692	166,654	-	-	627,692	166,654		
Total program revenues	<u>3,102,236</u>	<u>3,468,058</u>	<u>6,064,568</u>	<u>5,414,089</u>	<u>9,166,804</u>	<u>8,882,147</u>		
General revenues:								
Property taxes	596,330	615,367	-	-	596,330	615,367		
Income taxes	4,466,942	4,616,108	-	-	4,466,942	4,616,108		
Unrestricted grants and entitlements	634,740	677,591	-	-	634,740	677,591		
Investment earnings	10,017	19,896	-	-	10,017	19,896		
Refunds and reimbursements	110,805	41,226	1,946	-	112,751	41,226		
Miscellaneous	212,789	184,365	339,976	36,561	552,765	220,926		
Total general revenues	<u>6,031,623</u>	<u>6,154,553</u>	<u>341,922</u>	<u>36,561</u>	<u>6,373,545</u>	<u>6,191,114</u>		
Total revenues	<u>9,133,859</u>	<u>9,622,611</u>	<u>6,406,490</u>	<u>5,450,650</u>	<u>15,540,349</u>	<u>15,073,261</u>		
Expenses:								
General government	1,207,641	1,539,289	-	-	1,207,641	1,539,289		
Security of persons and property	5,529,766	5,439,899	-	-	5,529,766	5,439,899		
Public health and welfare	388,534	338,534	-	-	388,534	338,534		
Transportation	1,606,447	1,088,982	-	-	1,606,447	1,088,982		
Community environment	592,214	697,743	-	-	592,214	697,743		
Leisure time activity	136,553	156,264	-	-	136,553	156,264		
Other	-	5,670	-	-	-	5,670		
Interest and fiscal charges	17,308	11,895	-	-	17,308	11,895		
Water	-	-	2,832,030	2,786,308	2,832,030	2,786,308		
Sewer	-	-	2,741,298	2,400,777	2,741,298	2,400,777		
Total expenses	<u>9,478,463</u>	<u>9,278,276</u>	<u>5,573,328</u>	<u>5,187,085</u>	<u>15,051,791</u>	<u>14,465,361</u>		
Increase (decrease) in net position before transfers	(344,604)	344,335	833,162	263,565	488,558	607,900		
Transfers	<u>(11,786)</u>	<u>-</u>	<u>11,786</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Change in net position	(356,390)	344,335	844,948	263,565	488,558	607,900		
Net position at beginning 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>		
Net position at end of year	<u>\$ 14,131,531</u>	<u>\$ 14,487,921</u>	<u>\$ 29,923,344</u>	<u>\$ 29,078,396</u>	<u>\$ 44,054,875</u>	<u>\$ 43,566,317</u>		

CITY OF FOSTORIA, OHIO

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

Governmental Activities

Governmental activities net position decreased \$356,390 in 2013.

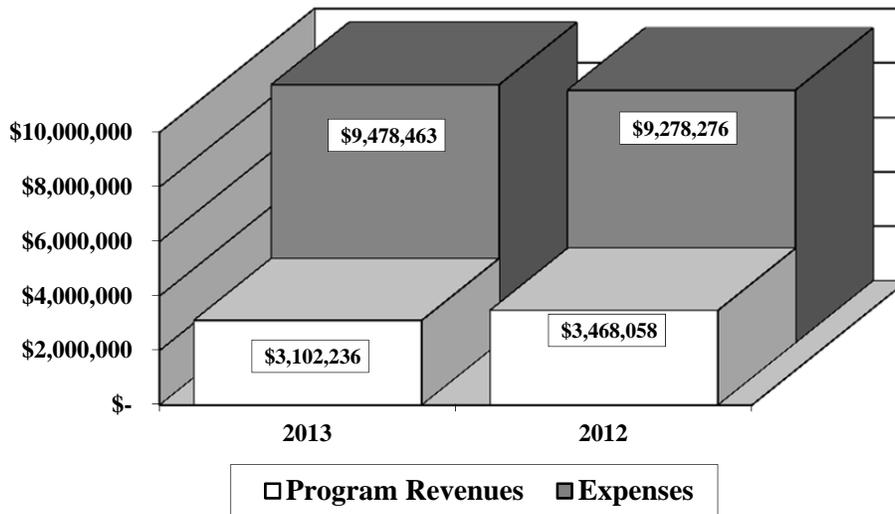
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,529,766 of the total expenses of the City. These expenses were partially funded by \$346,356 in direct charges to users of the services. Transportation expenses totaled \$1,606,447. Transportation expenses were partially funded by \$24,643 in direct charges to users of the services, \$760,566 in operating grants and contributions and \$627,692 in capital grants and contributions.

The state and federal government contributed to the City a total of \$1,692,969 in operating grants and contributions and \$627,692 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$760,566 subsidized transportation programs and \$764,180 subsidized community environment programs.

General revenues totaled \$6,031,623, and amounted to 66.04% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$5,063,272. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue, making up \$634,740.

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

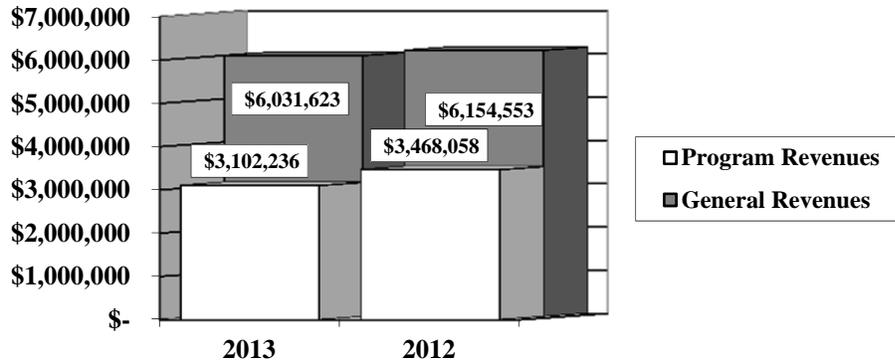
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Governmental Activities

	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013</u>	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>
Program Expenses:				
General government	\$ 1,207,641	\$ 892,930	\$ 1,539,289	\$ 1,209,340
Security of persons and property	5,529,766	5,183,410	5,439,899	3,978,049
Public health and welfare	388,534	206,421	338,534	157,923
Transportation	1,606,447	193,546	1,088,982	302,902
Community environment	592,214	(208,247)	697,743	53,718
Leisure time activity	136,553	90,859	156,264	91,021
Other	-	-	5,670	5,370
Interest and fiscal charges	<u>17,308</u>	<u>17,308</u>	<u>11,895</u>	<u>11,895</u>
Total	<u>\$ 9,478,463</u>	<u>\$ 6,376,227</u>	<u>\$ 9,278,276</u>	<u>\$ 5,810,218</u>

The dependence upon general revenues for governmental activities is apparent, with 67.27% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



Business-type Activities

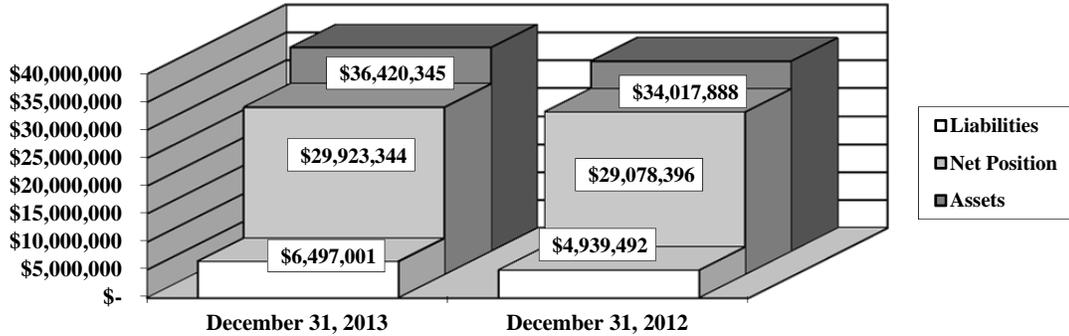
Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$6,064,568, general revenues of \$341,922, transfers in of \$11,786 and expenses of \$5,573,328 for 2013.

CITY OF FOSTORIA, OHIO

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

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 \$4,445,085 which is \$526,456 less than last year's total of \$4,971,541. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2013 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> 12/31/13	<u>Fund Balances</u> 12/31/12	<u>Change</u>
Major funds:			
General	\$ 993,412	\$ 953,726	\$ 39,686
Fostoria Revolving Loan	2,142,885	2,129,755	13,130
General Capital Improvements	10,448	110,765	(100,317)
Other nonmajor governmental funds	<u>1,298,340</u>	<u>1,777,295</u>	<u>(478,955)</u>
Total	<u>\$ 4,445,085</u>	<u>\$ 4,971,541</u>	<u>\$ (526,456)</u>

General Fund

The City's general fund balance increased \$39,686.

CITY OF FOSTORIA, OHIO

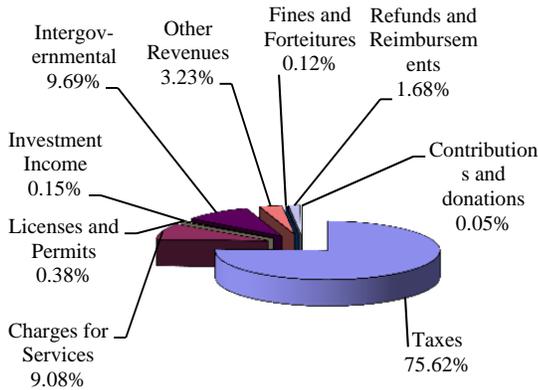
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

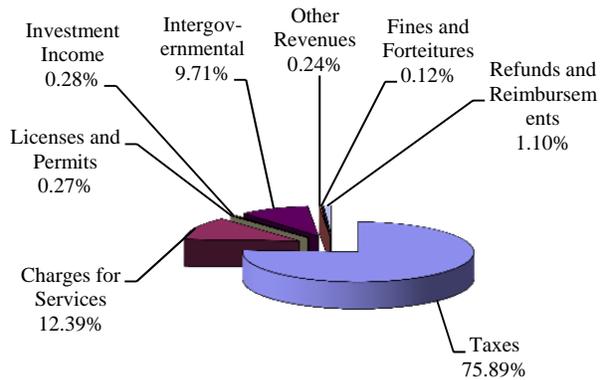
	2013	2012	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
Revenues			
Taxes	\$ 4,981,575	\$ 5,272,003	(5.51) %
Charges for services	598,057	860,568	(30.50) %
Licenses and permits	25,167	18,638	35.03 %
Fines and forfeitures	7,784	8,150	(4.49) %
Intergovernmental	638,038	674,838	(5.45) %
Investment income	9,901	19,743	(49.85) %
Refunds and reimbursements	110,805	76,693	44.48 %
Contributions and donations	3,600	-	100.00 %
Other	<u>212,789</u>	<u>16,971</u>	1,153.84 %
Total	<u>\$ 6,587,716</u>	<u>\$ 6,947,604</u>	(5.18) %

Tax revenue represents 75.62% of all general fund revenue. Tax revenue decreased by 5.51% over prior year due primarily to a decrease in income tax collections. Charges for services decreased 30.50% due to decreases in ambulance fees and court related revenues. Intergovernmental revenues decreased 5.45% due to decreases in local government funding and estate taxes. Investment income decreased 49.85% due to a decrease in the amount held by the City in interest-bearing investment accounts and interest rates. Refunds and reimbursements increased 44.48% due to an increase in salary and insurance reimbursements. Other revenues increased 1,153.84% due to collections of miscellaneous revenues that couldn't be put in the other categories.

Revenues –2013



Revenues –2012



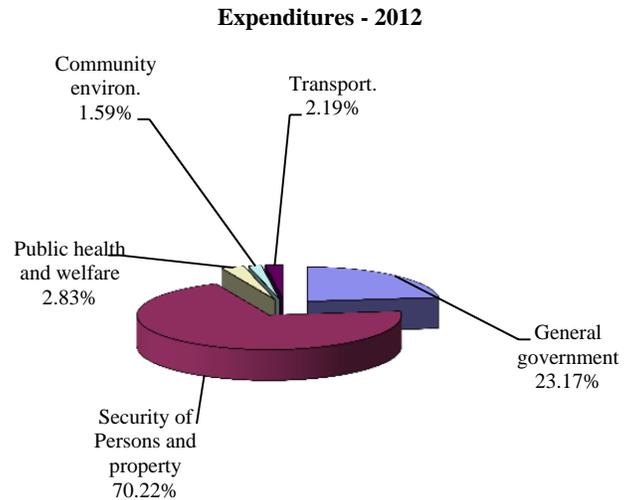
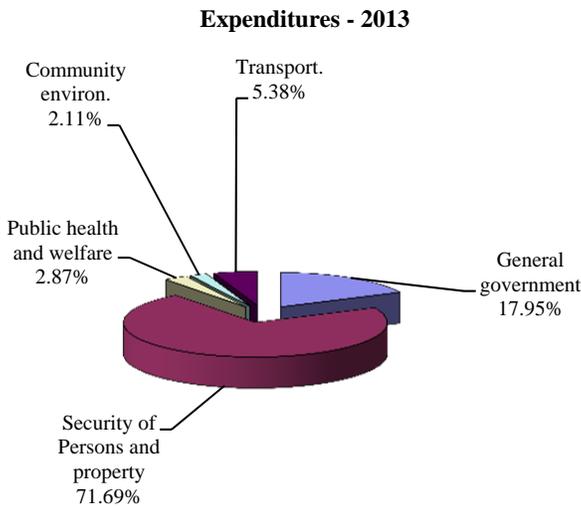
CITY OF FOSTORIA, OHIO

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

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

	2013	2012	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,081,751	\$ 1,412,081	(23.39) %
Security of persons and property	4,320,446	4,278,281	0.99 %
Public health and welfare	172,875	172,527	0.20 %
Transportation	324,268	133,523	142.86 %
Community environment	<u>127,389</u>	<u>97,171</u>	31.10 %
Total	<u>\$ 6,026,729</u>	<u>\$ 6,093,583</u>	(1.10) %

Overall expenditures of the general fund decreased \$66,854 or 1.10%. The most significant decrease was in the area of general government which decreased 23.39%. This decrease is the result of a decrease in judicial expenditures. The most significant increase was in the area of transportation which increased 142.86%. This increase is due to expenditures related to the loop road project.



Budgeting Highlights

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

In the general fund, the actual revenues and other financing sources were \$186,539 more than in the final budget and actual expenditures and other financing uses were \$215,476 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues and other financing sources were \$420,171 more than the original revenues and other financing sources. Budgeted expenditures and other financing uses increased \$181,782 from the original to the final budget.

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013

Fostoria Revolving Loan Fund

The Fostoria revolving loan fund had revenues of \$44,655 in 2013. The expenditures of the Fostoria revolving loan fund totaled \$31,525 in 2013. The net increase in fund balance for the Fostoria revolving loan fund was \$13,130 or 0.62%.

General Capital Improvements Fund

The general capital improvements fund had \$1,079,728 in revenues and other financing sources in 2013. The expenditures of the general capital improvements fund totaled \$1,180,045 in 2013. The net decrease in fund balance for the general capital improvements fund was \$100,317 or 90.57%. This fund showed increased activity due the Iron Triangle Viewing Center project that is partially funded by the Ohio Department of Transportation.

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 2013, the City had \$43,410,672 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, machinery and equipment, vehicles and infrastructure. Of this total, \$10,254,131 was reported in governmental activities and \$33,156,541 was reported in business-type activities. The following table shows December 31, 2013 balances compared to December 31, 2012.

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

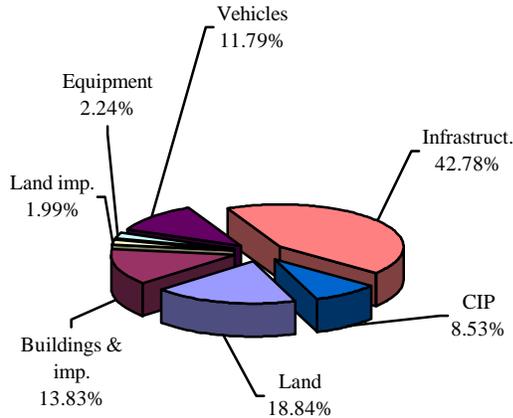
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 1,932,021	\$ 1,890,656	\$ 8,429,538	\$ 8,429,538	\$ 10,361,559	\$ 10,320,194
Construction in progress	874,438	-	2,243,570	-	3,118,008	-
Land improvements	204,532	208,261	-	-	204,532	208,261
Buildings	1,418,113	1,538,340	7,762,961	7,985,841	9,181,074	9,524,181
Machinery and equipment	229,544	276,016	466,829	576,544	696,373	852,560
Vehicles	1,208,874	1,049,278	140,337	174,621	1,349,211	1,223,899
Infrastructure	4,386,609	4,839,647	14,113,306	14,533,205	18,499,915	19,372,852
Totals	<u>\$ 10,254,131</u>	<u>\$ 9,802,198</u>	<u>\$ 33,156,541</u>	<u>\$ 31,699,749</u>	<u>\$ 43,410,672</u>	<u>\$ 41,501,947</u>

CITY OF FOSTORIA, OHIO

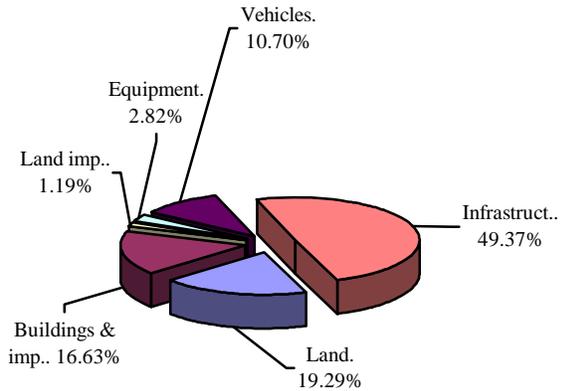
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

The following graphs show the breakdown of governmental capital assets by category for 2013 and 2012.

Capital Assets - Governmental Activities 2013



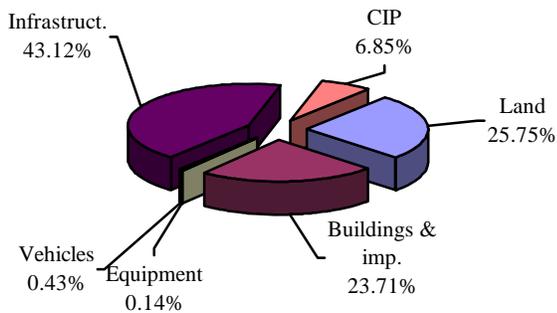
Capital Assets - Governmental Activities 2012



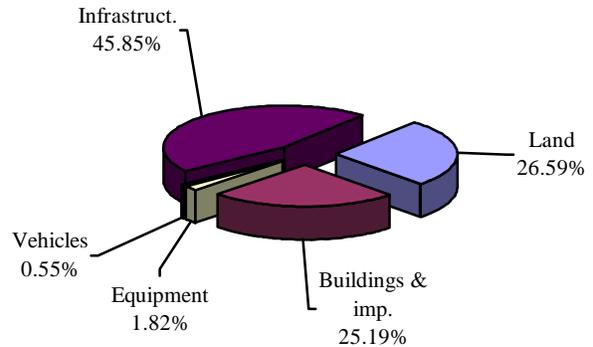
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 42.78% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2013 and 2012.

Capital Assets - Business-Type Activities 2013



Capital Assets - Business-Type Activities 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 43.12% of the City's total business-type capital assets. See Note 10 to the financial statements for more detail.

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013

Debt Administration

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

Governmental Activities

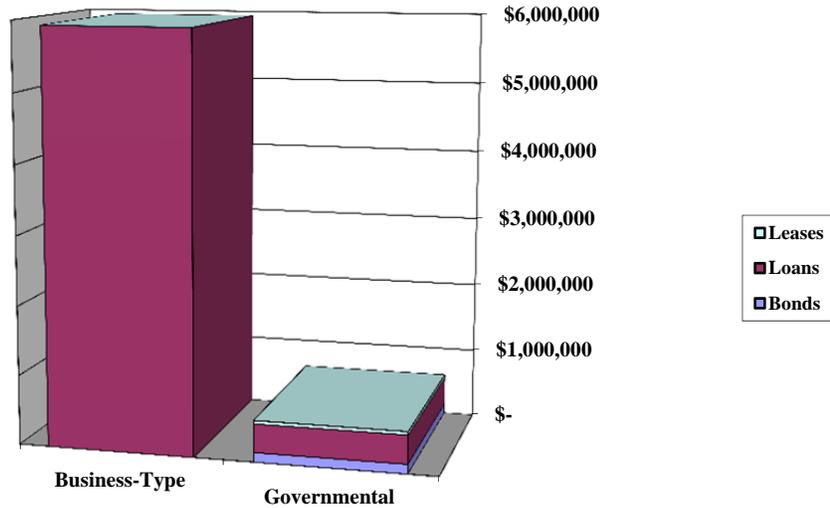
	<u>2013</u>	<u>2012</u>
OPWC loans	\$ 112,679	\$ 132,562
Special assessment bonds	136,165	158,930
Equipment loans and notes	293,897	51,565
Capital lease payable	<u>48,580</u>	<u>69,046</u>
Total long-term obligations	<u>\$ 591,321</u>	<u>\$ 412,103</u>

Business-Type Activities

	<u>2013</u>	<u>2012</u>
OWDA loans	\$ 5,516,712	\$ 3,818,708
OPWC loans	<u>417,576</u>	<u>471,430</u>
Total long-term obligations	<u>\$ 5,934,288</u>	<u>\$ 4,290,138</u>

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

Long-term obligations



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

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013

Economic Factors and Next Year's Budgets and Rates

The City's current population estimate as of the 2013 census is 13,244.

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 2014 budget.

These economic factors were considered in preparing the City's budget for fiscal year 2014. Budgeted revenues and other financing sources in the general fund for fiscal year 2014 budget are \$6,781,764. 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, Fostoria, Ohio 44830.

CITY OF FOSTORIA, OHIO

STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Governmental	Business-type	Total
	Activities	Activities	
	<hr/>	<hr/>	<hr/>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,639,302	\$ 2,475,938	\$ 5,115,240
Cash and cash equivalents with fiscal agent.	18,923	-	18,923
Receivables:			
Income taxes	1,036,371	-	1,036,371
Real and other taxes	774,465	-	774,465
Accounts.	118,097	743,707	861,804
Payment in lieu of taxes.	15,622	-	15,622
Due from other governments.	998,782	-	998,782
Special assessments	159,431	-	159,431
Loans	1,484,426	-	1,484,426
Materials and supplies inventory.	96,712	44,159	140,871
Capital assets:			
Nondepreciable capital assets	2,806,459	18,794,408	21,600,867
Depreciable capital assets, net	<u>7,447,672</u>	<u>14,362,133</u>	<u>21,809,805</u>
Total capital assets, net.	<u>10,254,131</u>	<u>33,156,541</u>	<u>43,410,672</u>
 Total assets.	 <u>17,596,262</u>	 <u>36,420,345</u>	 <u>54,016,607</u>
 Liabilities:			
Accounts payable.	346,015	61,294	407,309
Accrued wages and benefits	130,214	72,324	202,538
Due to other governments	112,386	55,822	168,208
Pension obligation payable.	71,713	25,852	97,565
Accrued interest payable.	2,437	46,497	48,934
Long-term liabilities:			
Due within one year	456,676	754,834	1,211,510
Due in more than one year.	<u>1,588,581</u>	<u>5,480,378</u>	<u>7,068,959</u>
 Total liabilities	 <u>2,708,022</u>	 <u>6,497,001</u>	 <u>9,205,023</u>
 Deferred inflows of resources:			
Property taxes levied for the next fiscal year.	741,087	-	741,087
Payment in lieu of taxes levied for the next fiscal year.	<u>15,622</u>	<u>-</u>	<u>15,622</u>
 Total deferred inflows of resources	 <u>756,709</u>	 <u>-</u>	 <u>756,709</u>
 Net position:			
Net investment in capital assets	9,662,810	27,222,253	36,885,063
Restricted for:			
Capital projects	180,363	-	180,363
Debt service	19,355	-	19,355
Security of persons and property.	107,255	-	107,255
Transportation projects	869,527	-	869,527
Revolving loans	2,407,494	-	2,407,494
Public health and welfare	109,861	-	109,861
Community environment	549,686	-	549,686
Perpetual care:			
Nonexpendable.	19,960	-	19,960
Other purposes.	103,918	-	103,918
Unrestricted	<u>101,302</u>	<u>2,701,091</u>	<u>2,802,393</u>
 Total net position	 <u>\$ 14,131,531</u>	 <u>\$ 29,923,344</u>	 <u>\$ 44,054,875</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,207,641	\$ 280,269	\$ 34,442	\$ -
Security of persons and property.	5,529,766	346,356	-	-
Public health and welfare	388,534	54,368	127,745	-
Transportation	1,606,447	24,643	760,566	627,692
Community environment.	592,214	36,281	764,180	-
Leisure time activity	136,553	39,658	6,036	-
Interest and fiscal charges	17,308	-	-	-
Total governmental activities	<u>9,478,463</u>	<u>781,575</u>	<u>1,692,969</u>	<u>627,692</u>
Business-type activities:				
Water.	2,832,030	3,234,553	-	-
Sewer.	2,741,298	2,830,015	-	-
Total business-type activities.	<u>5,573,328</u>	<u>6,064,568</u>	<u>-</u>	<u>-</u>
Total primary government.	<u>\$ 15,051,791</u>	<u>\$ 6,846,143</u>	<u>\$ 1,692,969</u>	<u>\$ 627,692</u>

General revenues:

Property taxes levied for:

 General purposes

 Police and fire pension

Income taxes levied for:

 General purposes

Grants and entitlements not restricted to specific programs.

Investment earnings.

Refunds and reimbursements

Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year.

Net position at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (892,930)	\$ -	\$ (892,930)
(5,183,410)	-	(5,183,410)
(206,421)	-	(206,421)
(193,546)	-	(193,546)
208,247	-	208,247
(90,859)	-	(90,859)
(17,308)	-	(17,308)
<u>(6,376,227)</u>	<u>-</u>	<u>(6,376,227)</u>
-	402,523	402,523
-	88,717	88,717
<u>-</u>	<u>491,240</u>	<u>491,240</u>
<u>(6,376,227)</u>	<u>491,240</u>	<u>(5,884,987)</u>
511,222	-	511,222
85,108	-	85,108
4,466,942	-	4,466,942
634,740	-	634,740
10,017	-	10,017
110,805	1,946	112,751
212,789	339,976	552,765
<u>6,031,623</u>	<u>341,922</u>	<u>6,373,545</u>
<u>(11,786)</u>	<u>11,786</u>	<u>-</u>
<u>6,019,837</u>	<u>353,708</u>	<u>6,373,545</u>
(356,390)	844,948	488,558
<u>14,487,921</u>	<u>29,078,396</u>	<u>43,566,317</u>
<u>\$ 14,131,531</u>	<u>\$ 29,923,344</u>	<u>\$ 44,054,875</u>

CITY OF FOSTORIA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	<u>General</u>	<u>Fostoria Revolving Loan</u>	<u>General Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents.	\$ 593,524	\$ 658,459	\$ 37,611	\$ 1,349,708	\$ 2,639,302
Cash and cash equivalents with fiscal agent.	-	-	-	18,923	18,923
Receivables:					
Income taxes	1,036,371	-	-	-	1,036,371
Real and other taxes.	688,262	-	-	86,203	774,465
Accounts.	118,097	-	-	-	118,097
Due from other governments	152,947	-	-	845,835	998,782
Special assessments	-	-	-	159,431	159,431
Loans	-	1,484,426	-	-	1,484,426
Payment in lieu of taxes	-	-	-	15,622	15,622
Advances to other funds	17,450	-	-	-	17,450
Materials and supplies inventory	-	-	-	96,712	96,712
Total assets	<u>\$ 2,606,651</u>	<u>\$ 2,142,885</u>	<u>\$ 37,611</u>	<u>\$ 2,572,434</u>	<u>\$ 7,359,581</u>
Liabilities:					
Accounts payable.	\$ 60,271	\$ -	\$ 27,163	\$ 258,581	\$ 346,015
Accrued wages and benefits	115,614	-	-	14,600	130,214
Advances from other funds.	-	-	-	17,450	17,450
Due to other governments	111,330	-	-	1,056	112,386
Pension obligation payable	67,402	-	-	4,311	71,713
Total liabilities	<u>354,617</u>	<u>-</u>	<u>27,163</u>	<u>295,998</u>	<u>677,778</u>
Deferred inflows of resources:					
Property taxes levied for the next fiscal year	658,513	-	-	82,574	741,087
Delinquent property tax revenue not available	28,160	-	-	3,629	31,789
Special assessments revenue not available	-	-	-	159,431	159,431
Income tax revenue not available.	471,009	-	-	-	471,009
Nonexchange transactions revenue not available.	100,940	-	-	716,840	817,780
Payment in lieu of taxes levied for the next fiscal year.	-	-	-	15,622	15,622
Total deferred inflows of resources	<u>1,258,622</u>	<u>-</u>	<u>-</u>	<u>978,096</u>	<u>2,236,718</u>
Fund balances:					
Nonspendable	17,450	-	-	116,672	134,122
Restricted	-	2,142,885	-	1,297,403	3,440,288
Committed.	-	-	10,448	48,762	59,210
Assigned.	956,376	-	-	-	956,376
Unassigned (deficit).	19,586	-	-	(164,497)	(144,911)
Total fund balances	<u>993,412</u>	<u>2,142,885</u>	<u>10,448</u>	<u>1,298,340</u>	<u>4,445,085</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,606,651</u>	<u>\$ 2,142,885</u>	<u>\$ 37,611</u>	<u>\$ 2,572,434</u>	<u>\$ 7,359,581</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, 2013

Total governmental fund balances		\$ 4,445,085
<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.		10,254,131
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes	\$ 471,009	
Property taxes	31,789	
Due from other governments	817,780	
Special assessments	<u>159,431</u>	
Total		1,480,009
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.		(2,437)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Special assessment bonds payable	(136,165)	
OPWC loans payable	(112,679)	
Equipment loan payable	(293,897)	
Capital lease payable	(48,580)	
Compensated absences payable	<u>(1,453,936)</u>	
Total		<u>(2,045,257)</u>
Net position of governmental activities		\$ <u>14,131,531</u>

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, 2013

	<u>General</u>	<u>Fostoria Revolving Loan</u>	<u>General Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Municipal income taxes	\$ 4,413,562	\$ -	\$ -	\$ -	\$ 4,413,562
Property and other taxes	568,013	-	-	95,162	663,175
Charges for services	598,057	-	-	43,096	641,153
Licenses and permits	25,167	-	-	-	25,167
Fines and forfeitures	7,784	-	-	13,184	20,968
Intergovernmental	638,038	-	627,692	1,252,376	2,518,106
Special assessments	-	-	-	62,962	62,962
Investment income	9,901	44,655	-	390	54,946
Rental income	-	-	-	3,300	3,300
Refunds and reimbursements	110,805	-	-	78,732	189,537
Contributions and donations	3,600	-	-	111,236	114,836
Other	212,789	-	-	133,338	346,127
Total revenues	<u>6,587,716</u>	<u>44,655</u>	<u>627,692</u>	<u>1,793,776</u>	<u>9,053,839</u>
Expenditures:					
Current:					
General government	1,081,751	-	-	82,777	1,164,528
Security of persons and property	4,320,446	-	-	555,205	4,875,651
Public health and welfare	172,875	-	-	179,144	352,019
Transportation	324,268	-	-	686,446	1,010,714
Community environment	127,389	31,525	-	402,238	561,152
Leisure time activity	-	-	-	88,082	88,082
Capital outlay	-	-	1,144,098	555,285	1,699,383
Debt service:					
Principal retirement	-	-	30,170	42,648	72,818
Interest and fiscal charges	-	-	5,777	9,120	14,897
Total expenditures	<u>6,026,729</u>	<u>31,525</u>	<u>1,180,045</u>	<u>2,600,945</u>	<u>9,839,244</u>
Excess (deficiency) of revenues over (under) expenditures	<u>560,987</u>	<u>13,130</u>	<u>(552,353)</u>	<u>(807,169)</u>	<u>(785,405)</u>
Other financing sources (uses):					
Sale of capital assets	18,699	-	-	-	18,699
Transfers in	-	-	200,000	404,930	604,930
Transfers (out)	(540,000)	-	-	(76,716)	(616,716)
Loan proceeds	-	-	252,036	-	252,036
Total other financing sources (uses)	<u>(521,301)</u>	<u>-</u>	<u>452,036</u>	<u>328,214</u>	<u>258,949</u>
Net change in fund balances	39,686	13,130	(100,317)	(478,955)	(526,456)
Fund balances at beginning of year	<u>953,726</u>	<u>2,129,755</u>	<u>110,765</u>	<u>1,777,295</u>	<u>4,971,541</u>
Fund balances at end of year	<u>\$ 993,412</u>	<u>\$ 2,142,885</u>	<u>\$ 10,448</u>	<u>\$ 1,298,340</u>	<u>\$ 4,445,085</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, 2013

Net change in fund balances - total governmental funds	\$	(526,456)
<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	\$ 1,321,604	
Depreciation expense	<u>(799,127)</u>	522,477
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.		
		(70,544)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Municipal income taxes	53,380	
Property and other taxes	(66,845)	
Intergovernmental	125,371	
Special assessments	<u>(31,886)</u>	
Total		80,020
Proceeds of loans 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.		
		(252,036)
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.		
Special assessment bonds	22,765	
OPWC loans	19,883	
Equipment loans	9,704	
Capital leases	<u>20,466</u>	
Total		72,818
In the statement of activities, interest is accrued on outstanding bonds and leases, whereas in governmental funds, an interest expenditure is reported when due.		
		(2,411)
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>(180,258)</u>
Change in net position of governmental activities	\$	<u>(356,390)</u>

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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 3,981,145	\$ 4,261,770	\$ 4,386,357	\$ 124,587
Property and other taxes	515,164	551,478	567,600	16,122
Charges for services	546,565	585,091	602,195	17,104
Licenses and permits	20,252	21,679	22,313	634
Fines and forfeitures	7,065	7,563	7,784	221
Intergovernmental	578,274	619,035	637,131	18,096
Investment income	8,987	9,620	9,901	281
Refunds and reimbursements	100,569	107,658	110,805	3,147
Contributions and donations	3,268	3,498	3,600	102
Other	182,607	195,479	201,193	5,714
Total revenues	5,943,896	6,362,871	6,548,879	186,008
Expenditures:				
Current:				
General government:				
Legislative and executive	1,043,145	995,181	936,366	58,815
Judicial	182,948	156,608	146,421	10,187
Security of persons and property	4,403,608	4,597,911	4,467,284	130,627
Public health and welfare	172,041	189,499	178,410	11,089
Transportation	58,302	63,050	60,843	2,207
Community environment	39,390	78,967	76,416	2,551
Total expenditures	5,899,434	6,081,216	5,865,740	215,476
Excess of revenues over expenditures	44,462	281,655	683,139	401,484
Other financing sources (uses):				
Sale of capital assets	16,972	18,168	18,699	531
Transfers (out)	(600,000)	(600,000)	(600,000)	-
Total other financing sources (uses)	(583,028)	(581,832)	(581,301)	531
Net change in fund balances	(538,566)	(300,177)	101,838	402,015
Fund balance at beginning of year	150,373	150,373	150,373	-
Prior year encumbrances appropriated	24,653	24,653	24,653	-
Fund balance (deficit) at end of year	\$ (363,540)	\$ (125,151)	\$ 276,864	\$ 402,015

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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ 226	\$ 226	\$ 293	\$ 67
Other	174,924	174,924	227,223	52,299
Total revenues	<u>175,150</u>	<u>175,150</u>	<u>227,516</u>	<u>52,366</u>
Expenditures:				
Current:				
Community environment	30,981	280,981	274,715	6,266
Total expenditures	<u>30,981</u>	<u>280,981</u>	<u>274,715</u>	<u>6,266</u>
Net change in fund balances	144,169	(105,831)	(47,199)	58,632
Fund balances at beginning of year	704,877	704,877	704,877	-
Prior year encumbrances appropriated	481	481	481	-
Fund balance at end of year	<u>\$ 849,527</u>	<u>\$ 599,527</u>	<u>\$ 658,159</u>	<u>\$ 58,632</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2013

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents.	\$ 841,907	\$ 1,634,031	\$ 2,475,938
Receivables (net of allowance for uncollectibles):			
Accounts.	442,873	300,834	743,707
Materials and supplies inventory	29,857	14,302	44,159
Total current assets	<u>1,314,637</u>	<u>1,949,167</u>	<u>3,263,804</u>
Noncurrent assets:			
Capital assets:			
Nondepreciable capital assets.	8,121,300	10,673,108	18,794,408
Depreciable capital assets, net	10,089,221	4,272,912	14,362,133
Total capital assets, net.	<u>18,210,521</u>	<u>14,946,020</u>	<u>33,156,541</u>
Total assets.	<u>19,525,158</u>	<u>16,895,187</u>	<u>36,420,345</u>
Liabilities:			
Current liabilities:			
Accounts payable.	26,848	34,446	61,294
Accrued wages and benefits	51,739	20,585	72,324
Due to other governments	25,243	30,579	55,822
Pension obligation payable	15,331	10,521	25,852
Accrued interest payable	11,659	34,838	46,497
Current portion of compensated absences	147,322	51,372	198,694
Current portion of OWDA loans	111,633	394,961	506,594
Current portion of OPWC loans.	34,280	15,266	49,546
Total current liabilities.	<u>424,055</u>	<u>592,568</u>	<u>1,016,623</u>
Long-term liabilities:			
OWDA loans	1,257,492	3,752,626	5,010,118
OPWC loans.	220,316	147,714	368,030
Compensated absences.	73,575	28,655	102,230
Total long-term liabilities	<u>1,551,383</u>	<u>3,928,995</u>	<u>5,480,378</u>
Total liabilities	<u>1,975,438</u>	<u>4,521,563</u>	<u>6,497,001</u>
Net position:			
Net investment in capital assets.	16,586,800	10,635,453	27,222,253
Unrestricted.	<u>962,920</u>	<u>1,738,171</u>	<u>2,701,091</u>
Total net position.	<u>\$ 17,549,720</u>	<u>\$ 12,373,624</u>	<u>\$ 29,923,344</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, 2013

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 3,234,553	\$ 2,830,015	\$ 6,064,568
Other	64,856	275,120	339,976
Refunds and reimbursements	1,140	806	1,946
Total operating revenues.	<u>3,300,549</u>	<u>3,105,941</u>	<u>6,406,490</u>
Operating expenses:			
Personal services	1,362,115	996,572	2,358,687
Contract services.	83,437	265,982	349,419
Materials and supplies.	617,991	676,252	1,294,243
Utilities	210,132	278,150	488,282
Depreciation.	403,095	341,071	744,166
Other	131,242	143	131,385
Total operating expenses.	<u>2,808,012</u>	<u>2,558,170</u>	<u>5,366,182</u>
Operating income.	492,537	547,771	1,040,308
Nonoperating (expenses):			
Interest expense and fiscal charges.	(24,017)	(77,225)	(101,242)
Loss on disposal of capital assets	(1)	(105,903)	(105,904)
Total nonoperating (expenses)	<u>(24,018)</u>	<u>(183,128)</u>	<u>(207,146)</u>
Income before transfers	468,519	364,643	833,162
Transfer in	-	11,786	11,786
Change in net position	468,519	376,429	844,948
Net position at beginning of year.	<u>17,081,201</u>	<u>11,997,195</u>	<u>29,078,396</u>
Net position at end of year	<u>\$ 17,549,720</u>	<u>\$ 12,373,624</u>	<u>\$ 29,923,344</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, 2013

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 3,350,236	\$ 2,919,689	\$ 6,269,925
Cash received from other operations	64,856	275,120	339,976
Cash received from refunds and reimbursements	1,140	806	1,946
Cash payments for personal services	(1,355,405)	(1,055,129)	(2,410,534)
Cash payments for contractual services	(82,187)	(266,215)	(348,402)
Cash payments for materials and supplies	(619,057)	(663,619)	(1,282,676)
Cash payments for utilities	(206,224)	(274,254)	(480,478)
Cash payments for other expenses	(145,913)	(143)	(146,056)
Net cash provided by operating activities.	<u>1,007,446</u>	<u>936,255</u>	<u>1,943,701</u>
Cash flows from noncapital financing activities:			
Cash received from transfers in	-	11,786	11,786
Net cash provided by noncapital financing activities.	<u>-</u>	<u>11,786</u>	<u>11,786</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(44,164)	(2,292,530)	(2,336,694)
Loan issuance.	-	2,243,570	2,243,570
Principal retirement on bonds and loans	(142,285)	(457,135)	(599,420)
Interest paid on bonds and loans	(25,395)	(86,633)	(112,028)
Net cash used in capital and related financing activities.	<u>(211,844)</u>	<u>(592,728)</u>	<u>(804,572)</u>
Net increase in cash and cash equivalents	795,602	355,313	1,150,915
Cash and cash equivalents at beginning of year.	46,305	1,278,718	1,325,023
Cash and cash equivalents at end of year	<u>\$ 841,907</u>	<u>\$ 1,634,031</u>	<u>\$ 2,475,938</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income.	\$ 492,537	\$ 547,771	\$ 1,040,308
Adjustments:			
Depreciation.	403,095	341,071	744,166
Changes in assets and liabilities:			
Decrease/(increase) in materials and supplies inventory.	(3,165)	89,674	86,509
Decrease in accounts receivable	115,683	3,058	118,741
Increase in accounts payable	9,570	17,890	27,460
Increase in accrued wages and benefits	31,796	2,090	33,886
(Decrease) in pension obligation payable	(97)	(4,228)	(4,325)
(Decrease) in due to other governments	(32,914)	(19,054)	(51,968)
(Decrease) in compensated absences payable.	(9,059)	(42,017)	(51,076)
Net cash provided by operating activities	<u>\$ 1,007,446</u>	<u>\$ 936,255</u>	<u>\$ 1,943,701</u>

At December 31, 2013, the water fund purchased \$3,595 in capital assets on account.
 At December 31, 2013, the sewer fund purchased \$8,881 in capital assets on account.
 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, 2013

	<u>Private-Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 11,173	\$ 13,073
Cash in segregated accounts	-	81,018
	<hr/>	<hr/>
Total assets.	11,173	\$ 94,091
	<hr/>	<hr/>
Liabilities:		
Accounts payable	282	\$ -
Due to other governments	-	536
Undistributed monies.	-	93,555
	<hr/>	<hr/>
Total liabilities	282	\$ 94,091
	<hr/>	<hr/>
Net position:		
Held in trust for other purposes	10,891	
	<hr/>	
Total net position	\$ 10,891	
	<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, 2013

	Private-Purpose Trust
	<u> </u>
Additions:	
Interest	<u>\$ 12</u>
Total additions	<u> 12</u>
Reductions:	
Other	<u> 498</u>
Total deductions	<u> 498</u>
Change in net position	(486)
Net position at beginning of year.	<u> 11,377</u>
Net position at end of year	<u><u> \$ 10,891</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

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

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” and GASB Statement No. 61 “The Financial Reporting Entity: Omnibus”. 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 and GASB Statement No. 61, 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, 2013

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.

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.

CITY OF FOSTORIA, OHIO

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

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

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 of resources and liabilities and deferred inflows of resources 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.

General capital improvements fund - The general capital improvements fund is used to account for transfers and grants that are committed and restricted, respectively, for capital improvements throughout the City.

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, 2013

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources 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.

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.

CITY OF FOSTORIA, OHIO

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

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

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

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

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

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

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

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.

CITY OF FOSTORIA, OHIO

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

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

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 2013.

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

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

G. Cash and Cash Equivalents

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

CITY OF FOSTORIA, OHIO

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

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

During 2013, 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, 2013.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2013 amounted to \$9,901, which included \$9,383 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, 2013 was \$18,923. 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.

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.

CITY OF FOSTORIA, OHIO

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

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

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City’s historical records of necessary improvements and replacement.

Depreciation is computed using the straight-line method over the following useful lives:

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

J. Compensated Absences

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

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

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

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

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

CITY OF FOSTORIA, OHIO

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Balances

On fund financial statements, receivables and payables resulting from long-term interfund loans are classified as “advances to/from other funds”. 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.

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.

CITY OF FOSTORIA, OHIO

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

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

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.

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.

CITY OF FOSTORIA, OHIO

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

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

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

A. Change in Accounting Principles

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

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

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

B. Deficit Fund Balances

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

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Parks and recreation fund	\$ 109
Grants-Brownfield fund	115,917
Fire department grant fund	2,352
Infrastructure capital improvement fund	46,119

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The fund deficits in these funds is the result of adjustments for accrual liabilities.

CITY OF FOSTORIA, OHIO

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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.

CITY OF FOSTORIA, OHIO

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, \$81,018 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, 2013, \$18,923 was on deposit with the City’s fiscal agent for undistributed permissive tax received. This amount is excluded from the internal cash pool reported on the balance sheet as “equity in pooled cash and cash equivalents”.

C. Deposits with Financial Institutions

At December 31, 2013, the carrying amount of all City deposits, including cash with fiscal agent and cash in segregated accounts, was \$4,508,892. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2013, \$3,988,483 of the City’s bank balance of \$4,569,501 was exposed to custodial risk as discussed below, while \$581,018 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, 2013, 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>730,535</u>	\$ <u>730,535</u>

CITY OF FOSTORIA, OHIO

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 730,535	100.00

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, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,508,892
Investments	730,535
Total	\$ <u>5,239,427</u>

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,658,225
Business-type activities	2,475,938
Private-purpose funds	11,173
Agency funds	94,091
Total	\$ <u>5,239,427</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

<u>Transfers to</u>	<u>Transfers from</u>		<u>Total</u>
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	
General capital improvements fund	\$ 200,000	\$ -	\$ 200,000
Nonmajor governmental funds	340,000	64,930	404,930
Sewer fund	-	11,786	11,786
Total	\$ <u>540,000</u>	\$ <u>76,716</u>	\$ <u>616,716</u>

CITY OF FOSTORIA, OHIO

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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. The transfer of \$64,930 from the airport grant fund (a nonmajor governmental fund) to the infrastructure capital improvement fund (a nonmajor governmental fund) was for capital projects. The transfer of \$11,786 from the sewer and water extension fund (a nonmajor governmental fund) to the sewer fund was for OPWC principal payments. Transfers between governmental funds are eliminated on the government-wide financial statements. Transfers between governmental activities and business-type activities are reported as transfers on the statement of activities.

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

- B.** Advances to/from other funds consisted of the following at December 31, 2013, as reported on the fund financial statements:

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

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

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 revalued every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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

CITY OF FOSTORIA, OHIO

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

NOTE 6 - PROPERTY TAXES - (Continued)

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, 2013 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow since the current taxes were not levied to finance 2013 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, 2013 were as follows:

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

Real property

Residential/agricultural	\$ 99,228,290
Commercial/industrial/mineral	45,701,640
Public utility	8,609,890
Total assessed value	<u>\$ 153,539,820</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 2013 was \$4,413,562 as reported on the fund financial statements.

CITY OF FOSTORIA, OHIO

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

NOTE 8 - RECEIVABLES

Receivables at December 31, 2013, 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, 2013, as well as intended to finance 2013 operations.

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

Governmental activities:

Income taxes	\$ 1,036,371
Real and other taxes	774,465
Accounts	118,097
Payment in lieu of taxes	15,622
Due from other governments	998,782
Special assessments	159,431
Loans	1,484,426

Business-type activities:

Accounts	743,707
----------	---------

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

NOTE 9 - LOANS RECEIVABLE

The Fostoria City Council created the Revolving Loan Committee and granted them the authority to act on behalf of the City in making loans from the City’s Revolving Loan Fund to qualified applicants within the revolving loan fund geographic area. At the close of 2013, there were loans outstanding to businesses with a total principal balance due of \$1,484,426.

CITY OF FOSTORIA, OHIO

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

NOTE 10 - CAPITAL ASSETS

<u>Governmental activities:</u>	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/13</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,890,656	\$ 41,365	\$ -	\$ 1,932,021
Construction in progress	<u>-</u>	<u>874,438</u>	<u>-</u>	<u>874,438</u>
Total capital assets, not being depreciated	<u>1,890,656</u>	<u>915,803</u>	<u>-</u>	<u>2,806,459</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	600,180	-	(20,380)	579,800
Buildings	7,385,937	-	-	7,385,937
Machinery and equipment	2,176,921	5,927	(780,425)	1,402,423
Vehicles	2,788,641	399,874	(87,668)	3,100,847
Infrastructure	<u>8,202,818</u>	<u>-</u>	<u>(115,326)</u>	<u>8,087,492</u>
Total capital assets, being depreciated	<u>21,154,497</u>	<u>405,801</u>	<u>(1,003,799)</u>	<u>20,556,499</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(391,919)	(3,729)	20,380	(375,268)
Buildings	(5,847,597)	(120,227)	-	(5,967,824)
Machinery and equipment	(1,900,905)	(52,399)	780,425	(1,172,879)
Vehicles	(1,739,363)	(169,734)	17,124	(1,891,973)
Infrastructure	<u>(3,363,171)</u>	<u>(453,038)</u>	<u>115,326</u>	<u>(3,700,883)</u>
Total accumulated depreciation	<u>(13,242,955)</u>	<u>(799,127)</u>	<u>933,255</u>	<u>(13,108,827)</u>
Total capital assets, being depreciated, net	<u>7,911,542</u>	<u>(393,326)</u>	<u>(70,544)</u>	<u>7,447,672</u>
Government-type activities capital assets, net	<u>\$ 9,802,198</u>	<u>\$ 522,477</u>	<u>\$ (70,544)</u>	<u>\$ 10,254,131</u>

CITY OF FOSTORIA, OHIO

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

NOTE 10 - CAPITAL ASSETS - (Continued)

	Balance 12/31/12	Additions	Disposals	Balance 12/31/13
<u>Business-type activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 8,429,538	\$ -	\$ -	\$ 8,429,538
Construction in progress	-	2,243,570	-	2,243,570
Total capital assets, not being depreciated	<u>8,429,538</u>	<u>2,243,570</u>	<u>-</u>	<u>10,673,108</u>
<i>Capital assets, being depreciated:</i>				
Buildings	14,313,513	-	-	14,313,513
Machinery and equipment	2,584,717	43,782	(1,197,832)	1,430,667
Vehicles	953,638	19,510	(13,679)	959,469
Infrastructure	23,800,448	-	-	23,800,448
Total capital assets, being depreciated	<u>41,652,316</u>	<u>63,292</u>	<u>(1,211,511)</u>	<u>40,504,097</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(6,327,672)	(222,880)	-	(6,550,552)
Machinery and equipment	(2,008,173)	(47,594)	1,091,929	(963,838)
Vehicles	(779,017)	(53,793)	13,678	(819,132)
Infrastructure	(9,267,243)	(419,899)	-	(9,687,142)
Total accumulated depreciation	<u>(18,382,105)</u>	<u>(744,166)</u>	<u>1,105,607</u>	<u>(18,020,664)</u>
Total capital assets, being depreciated, net	<u>23,270,211</u>	<u>(680,874)</u>	<u>(105,904)</u>	<u>22,483,433</u>
Business-type activities capital assets, net	<u>\$ 31,699,749</u>	<u>\$ 1,562,696</u>	<u>\$ (105,904)</u>	<u>\$ 33,156,541</u>

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

Governmental activities:

General government	\$ 22,397
Security of persons and property	166,302
Public health and welfare	31,739
Transportation	533,072
Community environment	1,796
Leisure time activity	<u>43,821</u>
Total depreciation expense - governmental activities	<u>\$ 799,127</u>

Business-type activities:

Water	\$ 403,095
Sewer	<u>341,071</u>
Total depreciation expense - business-type activities	<u>\$ 744,166</u>

CITY OF FOSTORIA, OHIO

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

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the City entered into capitalized lease agreements for the acquisition of heavy equipment, including a salt 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 \$93,720. Accumulated depreciation as of December 31, 2013 was \$15,619, leaving a current book value of \$78,101. 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 2013 totaled \$20,466 and \$4,209, respectively, in the general capital improvements fund.

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

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, 2013:

Year Ending December 31,	Governmental Activities
2014	\$ 24,674
2015	14,633
2016	14,634
Total future minimum lease payments	\$ 53,941
Less: amount representing interest	(5,361)
Present value of future minimum lease payments	\$ 48,580

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.

CITY OF FOSTORIA, OHIO

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

NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS - (Continued)

Vacation is accumulated based upon length of service as follows:

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

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 2013, the following changes occurred in the City's governmental long-term obligations:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/13</u>	<u>Due Within One Year</u>
Governmental activities:							
<u>OWPC loans payable:</u>							
OPWC - Kelly Storm Sewer	05/08/98	0%	\$ 44,756	\$ -	\$ (8,138)	\$ 36,618	\$ 8,138
OPWC - Circle Drive	12/1/00	0%	10,250	-	(2,050)	8,200	2,050
OPWC - Sandusky Sewer Pump	6/9/10	0%	<u>77,556</u>	<u>-</u>	<u>(9,695)</u>	<u>67,861</u>	<u>9,695</u>
Total OPWC loans			<u>132,562</u>	<u>-</u>	<u>(19,883)</u>	<u>112,679</u>	<u>19,883</u>
<u>Special assessment bonds:</u>							
Kelly Addition	07/23/98	5.95%	<u>158,930</u>	<u>-</u>	<u>(22,765)</u>	<u>136,165</u>	<u>24,140</u>
Total special assessment bonds			<u>158,930</u>	<u>-</u>	<u>(22,765)</u>	<u>136,165</u>	<u>24,140</u>
<u>Other long-term obligations:</u>							
Equipment note			51,565	-	(9,704)	41,861	9,999
Ambulance note			-	252,036	-	252,036	47,435
Capital lease obligations			69,046	-	(20,466)	48,580	21,732
Compensated absences payable			<u>1,273,678</u>	<u>504,032</u>	<u>(323,774)</u>	<u>1,453,936</u>	<u>333,487</u>
Total other long-term obligations			<u>1,394,289</u>	<u>756,068</u>	<u>(353,944)</u>	<u>1,796,413</u>	<u>412,653</u>
Total governmental activities			<u>\$ 1,685,781</u>	<u>\$ 756,068</u>	<u>\$ (396,592)</u>	<u>\$ 2,045,257</u>	<u>\$ 456,676</u>

CITY OF FOSTORIA, OHIO

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

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

B. During 2013, the following changes occurred in the City's business-type activities long-term obligations.

	<u>Issue</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/13</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Business-type activities:							
<u>OWDA loans payable:</u>							
OWDA loan #3240	10/15/00	4.55%	\$ 559,577	\$ -	\$ (59,202)	\$ 500,375	\$ 61,991
OWDA loan #5426	11/19/09	0.00%	917,554	-	(48,804)	868,750	49,642
OWDA loan #6498	10/10/13	2.57%	-	2,243,570	-	2,243,570	-
OWDA loan #2262	07/01/95	4.56%	976,938	-	(377,548)	599,390	394,961
OWDA loan #5702	03/16/06	3.20%	<u>1,364,639</u>	-	<u>(60,012)</u>	<u>1,304,627</u>	-
Total OWDA loans			<u>3,818,708</u>	<u>2,243,570</u>	<u>(545,566)</u>	<u>5,516,712</u>	<u>506,594</u>
<u>OPWC loans payable:</u>							
Fremont Street Pump Station	05/10/01	0.00%	21,056	-	(4,679)	16,377	4,679
CSO #1, Wood County	10/27/98	0.00%	4,308	-	(4,308)	-	-
Reservoir Rehabilitation	4/23/04	0.00%	23,981	-	(6,851)	17,130	6,852
Columbus Avenue CP15K	1/1/09	0.00%	82,421	-	(3,110)	79,311	3,109
Culbertson Street Water Tower		0.00%	53,155	-	(6,254)	46,901	6,254
North Poplar Street							
Sanitary Sewer and Waterline		0.00%	74,770	-	(7,478)	67,292	7,476
Zeller Road South Water Tower							
Cleaning and Painting		0.00%	196,743	-	(19,674)	177,069	19,675
Spruce Street Waterline improvements		0.00%	<u>14,996</u>	-	<u>(1,500)</u>	<u>13,496</u>	<u>1,501</u>
Total OPWC loans			<u>471,430</u>	-	<u>(53,854)</u>	<u>417,576</u>	<u>49,546</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			<u>352,000</u>	<u>141,831</u>	<u>(192,907)</u>	<u>300,924</u>	<u>198,694</u>
Total other long-term obligations			<u>352,000</u>	<u>141,831</u>	<u>(192,907)</u>	<u>300,924</u>	<u>198,694</u>
Total business-type activities			<u>\$ 4,642,138</u>	<u>\$ 2,385,401</u>	<u>\$ (792,327)</u>	<u>\$ 6,235,212</u>	<u>\$ 754,834</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 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.

On October 22, 2013, the City entered into a promissory note for an ambulance in the amount of \$252,036. This note bears an interest rate of 3.00% and matures October 22, 2018.

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.

CITY OF FOSTORIA, OHIO

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

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

The compensated absences liability will be paid from the following funds: general fund, street construction, maintenance & repair fund, termination benefits fund, water fund and 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.

During 2013, the City entered into an Ohio Water Development Authority (OWDA) loan to begin construction on wastewater treatment plant clarifier improvements (OWDA loan #6498). The loan was began disbursement on October 10, 2013 and carries an interest rate of 2.57%. The project is expected to cost \$4,466,650 but final costs have not been determined as the loan was not completely disbursed as of December 31, 2013.

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, 2013, the City has outstanding borrowings of \$5,516,712. 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 #6498 and #5702 are not closed out as of December 31, 2013. Future annual debt service principal and interest requirements for these loans, which have a balance of \$3,548,197 at December 31, 2013, 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 36.85 percent of net revenues. The total principal and interest remaining to be paid on the loans is \$5,635,879. Principal and interest paid for the current year were \$657,594 and total customer net revenues were \$1,784,474.

D. A summary of the City’s future debt service requirements as of December 31, 2013 follows:

Future Payment Due In	Business-Type OWDA Loans			Business-Type OPWC Loans	Governmental OPWC Loans
	Principal	Interest	Total	Principal Only	Principal Only
2014	\$ 506,594	\$ 45,484	\$ 552,078	\$ 49,546	\$ 19,883
2015	318,987	24,171	343,158	52,973	19,882
2016	117,619	16,621	134,240	42,695	19,882
2017	120,823	13,416	134,239	40,355	19,883
2018	124,178	10,061	134,239	38,014	13,763
2019 - 2023	407,993	9,414	417,407	145,783	19,386
2024 - 2028	248,215	-	248,215	15,552	-
2029 - 2033	124,106	-	124,106	15,551	-
2034 - 2038	-	-	-	15,551	-
2039	-	-	-	1,556	-
Total	\$ 1,968,515	\$ 119,167	\$ 2,087,682	\$ 417,576	\$ 112,679

CITY OF FOSTORIA, OHIO

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

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Future Payment <u>Due In</u>	Governmental <u>Special Assessment Bonds</u>			<u>Equipment Loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 24,140	\$ 7,747	\$ 31,887	\$ 9,999	\$ 1,274	\$ 11,273
2015	25,597	6,289	31,886	10,304	969	11,273
2016	27,129	4,758	31,887	10,617	656	11,273
2017	28,780	3,105	31,885	10,941	333	11,274
2018	<u>30,519</u>	<u>1,367</u>	<u>31,886</u>	-	-	-
Total	<u>\$ 136,165</u>	<u>\$ 23,266</u>	<u>\$ 159,431</u>	<u>\$ 41,861</u>	<u>\$ 3,232</u>	<u>\$ 45,093</u>

Future Payment <u>Due In</u>	<u>Ambulance Loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 47,435	\$ 7,666	\$ 55,101
2015	48,878	6,223	55,101
2016	50,352	4,749	55,101
2017	51,896	3,205	55,101
2018	<u>53,475</u>	<u>1,626</u>	<u>55,101</u>
Total	<u>\$ 252,036</u>	<u>\$ 23,469</u>	<u>\$ 275,505</u>

E. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2013 the City's total voted debt margin was \$16,144,567 and the unvoted debt margin was \$8,444,690; both amounts include available funds of \$22,886.

NOTE 14 - RISK MANAGEMENT

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

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

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to 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, 2013, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

CITY OF FOSTORIA, OHIO

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

NOTE 14 - RISK MANAGEMENT - (Continued)

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, 2013 and 2012:

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, 2013 and 2012:

<u>Casualty & Property Coverage</u>	<u>2013</u>	<u>2012</u>
Assets	\$34,411,883	\$34,389,569
Liabilities	<u>(12,760,194)</u>	<u>(14,208,353)</u>
Retained earnings	<u>\$21,651,689</u>	<u>\$20,181,216</u>

At December 31, 2013 and 2012, respectively, the liabilities above include approximately \$11.6 million and \$13.1 million of estimated incurred claims payable. The assets above also include approximately \$8.9 million and \$10.5 million of unpaid claims to be billed to approximately 475 and 466 member governments in the future, as of December 31, 2013 and 2012, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2013, the City's share of these unpaid claims collectible in future years is approximately \$131,000.

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

<u>Contributions to PEP</u>	
<u>2013</u>	<u>2012</u>
\$171,418	\$152,831

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.

CITY OF FOSTORIA, OHIO

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

NOTE 14 - RISK MANAGEMENT - (Continued)

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.

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.

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.

CITY OF FOSTORIA, OHIO

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

NOTE 15 - PENSION PLANS - (Continued)

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

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

The City's contribution rate for pension benefits for members in the Traditional Plan for 2013 was 13.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2013 was 13.00%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012, and 2011 were \$358,595, \$285,766, and \$299,629, respectively; 90.19% has been contributed for 2013 and 100% has been contributed for 2012 and 2011. The remaining 2013 pension liability has been reported as due to pension obligation payable on the basic financial statements. Contributions to the member-directed plan for 2013 were \$4,740 made by the City and \$3,386 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.

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

For 2013, the portion of the City's contributions to fund pension obligations was 14.81% for January 1, 2013 through May 31, 2013 and 16.65% for June 1, 2013 through December 31, 2013 for police officers and 19.31% for January 1, 2013 through May 31, 2013 and 21.15% for June 1, 2013 through December 31, 2013 for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$286,168 and \$302,496 for the year ended December 31, 2013, \$187,720 and \$193,351 for the year ended December 31, 2012, and \$173,358 and \$190,923, for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 93.57% has been contributed for police and 95.88% has been contributed for firefighters for 2013. The remaining 2013 pension liability has been reported as pension obligation payable on the basic financial statements.

CITY OF FOSTORIA, OHIO

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

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, 277 East Town Street, 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 2013, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2013 was 1.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2013 was 1.00%.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2013, 2012, and 2011 were \$127,584, \$115,450, and \$121,014, respectively; 90.19% has been contributed for 2013 and 100% has been contributed for 2012 and 2011. The remaining 2013 post-employment health care benefits liability has been reported as 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.

CITY OF FOSTORIA, OHIO

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

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$64,074 and \$53,122 for the year ended December 31, 2013, \$99,381 and \$75,659 for the year ended December 31, 2012, and \$91,778 and \$74,709, for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 93.57% has been contributed for police and 95.88% has been contributed for firefighters for 2013. The remaining 2013 post-employment health care benefits liability has been reported as pension obligation payable on the basic financial statements.

CITY OF FOSTORIA, OHIO

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

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:

Net Change in Fund Balance

	<u>General Fund</u>	<u>Fostoria Revolving Loan Fund</u>
Budget basis	\$ 101,838	\$ (47,199)
Net adjustment for revenue accruals	27,241	(182,861)
Net adjustment for expenditure accruals	131,877	242,890
Funds budgeted elsewhere	(249,850)	-
Adjustment for encumbrances	<u>28,580</u>	<u>300</u>
GAAP basis	<u>\$ 39,686</u>	<u>\$ 13,130</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, 2013

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	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Materials and supplies inventory	\$ -	\$ -	\$ -	\$ 96,712	\$ 96,712
Long-term loans	17,450	-	-	-	17,450
Permanent fund	-	-	-	19,960	19,960
Total nonspendable	<u>17,450</u>	<u>-</u>	<u>-</u>	<u>116,672</u>	<u>134,122</u>
Restricted:					
Capital projects	-	-	-	20,954	20,954
Debt service	-	-	-	22,886	22,886
Security of persons and property	-	-	-	145,732	145,732
Transportation projects	-	-	-	547,115	547,115
Revolving loans	-	2,142,885	-	264,609	2,407,494
Public health and welfare	-	-	-	118,851	118,851
Community environment	-	-	-	79,933	79,933
Other purposes	-	-	-	97,323	97,323
Total restricted	<u>-</u>	<u>2,142,885</u>	<u>-</u>	<u>1,297,403</u>	<u>3,440,288</u>
Committed:					
General government	-	-	-	37,748	37,748
Fostoria community trust	-	-	-	2,668	2,668
General capital improvements	-	-	10,448	8,346	18,794
Total committed	<u>-</u>	<u>-</u>	<u>10,448</u>	<u>48,762</u>	<u>59,210</u>
Assigned:					
General government	12,199	-	-	-	12,199
Security of persons and property	12,701	-	-	-	12,701
Transportation	276,438	-	-	-	276,438
Community and environment	9,493	-	-	-	9,493
Subsequent year appropriation	645,545	-	-	-	645,545
Total assigned	<u>956,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>956,376</u>
Unassigned	<u>19,586</u>	<u>-</u>	<u>-</u>	<u>(164,497)</u>	<u>(144,911)</u>
Total fund balances	<u>\$ 993,412</u>	<u>\$ 2,142,885</u>	<u>\$ 10,448</u>	<u>\$ 1,298,340</u>	<u>\$ 4,445,085</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(SEE ACCOUNTANT'S COMPILATION REPORT)

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:

	Year-End
<u>Fund</u>	<u>Encumbrances</u>
General fund	\$ 32,055
Fostoria revolving loan fund	300
Other governmental	<u>223,759</u>
Total	<u>\$ 256,114</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, 2013, is \$1,002,595. The City is not obligated in any manner for repayment of the debt. Accordingly, the debt is not reported as a liability in the accompanying financial statements.

NOTE 22 - NONCOMPLIANCE

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

City of Fostoria
Seneca County
Schedule of Federal Awards Expenditures
For the Year Ending December 31, 2013

Federal Grantor/Pass Through Grantor Program Title	Pass Through Entity Number	CFDA Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Pass through Ohio Department of Transportation Highway Planning and Construction	N/A	20.205	\$ <u>627,692</u>
Total U.S. Department of Transportation			627,692
<u>U.S. Department of Homeland Security (DHS)</u>			
<u>Federal Emergency Management Agency (FEMA)</u>			
Direct Program			
Staffing for Adequate Fire and Emergency Response (SAFER) Grant	N/A	97.083	\$ <u>469,166</u>
Total U.S. Department of Homeland Security			469,166
<u>U.S. Department of Housing and Urban Development</u>			
Pass through Ohio Department of Development, Hancock County Regional Planning Commission Community Development Block Grant Community Development Block Grant - CHIP	A-C-12-2BN-1	14.228	<u>55,906</u>
Total Community Development Block Grant			55,906
Home Investment Partnerships Program - CHIP	A-C-12-2BN-2	14.239	<u>6,952</u>
Total U.S. Department of Housing and Urban Development			62,858
<u>U.S. Department of Health & Human Services</u>			
Pass through Ohio Office of Criminal Justice Services Violence Protection Program	N/A	93.671	<u>30,701</u>
Total U.S. Department of Health & Human Services			<u>30,701</u>
Total Federal Awards			<u>\$ 1,190,417</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

**CITY OF FOSTORIA
SENECA COUNTY**

**Notes to the Schedule of Federal Award Expenditures
For the Year Ended December 31, 2013**

Note A- Significant Accounting Policies

The accompanying Schedule of Federal Awards 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.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

**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, 2013 and the related notes to the financial statements and have issued our report thereon dated November 24, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 2013-01.

We also noted certain matters that we have reported to management of the City in a separate letter dated November 24, 2014.

Entity's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the City's response and, accordingly, we express no opinion on it.

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.
November 24, 2014

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

**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 Avenue
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, 2013. 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 Each 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, 2013.

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. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2013-02 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 Expenditures of Federal Awards 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our unmodified report thereon dated November 24, 2014. We conducted our audit to opine on the City's basic financial statements. The accompanying schedule of expenditures of federal awards 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.
November 24, 2014

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

**CITY OF FOSTORIA
SENECA COUNTY
DECEMBER 31, 2013**

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>	No
(d)(1)(ii)	<i>Were there any other significant deficiencies reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	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 Highway Planning and Construction, CFDA #20.205
(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, 2013**

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

FINDING NUMBER 2013-01 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, 2013, the following funds' appropriations exceeded total estimated resources:

General Fund	(\$125,151)
General Capital Fund	(\$104,895)
Water Fund	(\$173,614)
Sewer Fund	(\$135,961)

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 2013-02 Material Weakness

OMB Circular A-133 states that it is management's responsibility to prepare an accurate Schedule of Federal Awards Expenditures. The requirement to present a schedule of expenditures of federal awards means that the recipient has to identify all of its federal programs (direct and indirect, major and nonmajor) and related awards expended, including separately identifying expenditures of Recovery Act awards.

The City's internal control procedures did not identify a U.S. Department of Transportation Highway Planning and Construction (CFDA #20.205) for \$627,692 that was passed through the Ohio Department of Transportation (ODOT). This grant was a direct payment grant, whereby ODOT paid vendors directly rather than sending money to the City and the City paying vendors. The failure to identify grants and include all activity affects the City's ability to report accurate federal expenditures required by OMB Circular A-133. This grant was identified during audit procedures and subsequently included in the schedule.

We recommend that the City implement additional procedures to identify federal grants and include them on the annual schedule of federal awards expenditures. Management should contact the various granting agencies and request documentation for all grant activity with the City.

Management Response:

Per conversation with Steve Garner, City Auditor, the pass-through entity's communication with him regarding the payments made to the vendors was insufficient. He will track federal funds and pass-through monies by contacting each federal agency or pass-through entity to request documentation. Also, he will periodically visit the various agency websites to confirm all activity for inclusion on the federal schedule.

**CITY OF FOSTORIA
SENECA COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2013**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2012-01	Ohio Revised Code Section 5705.39 - Total Appropriations Exceeded Estimated Resources	No	Repeated as 2013-01
2012-02	Cash reconciliation	Yes	No longer valid
2012-03	Classification of federal funds	Yes	No longer valid



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
JANUARY 20, 2015**