



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

CITY OF FOSTORIA  
SENECA COUNTY, OHIO

SINGLE AUDIT

For the Year Ended December 31, 2014  
Fiscal Year Audited Under GAGAS: 2014





# Dave Yost • Auditor of State

Board of Trustees  
City of Fostoria  
PO Box 1007  
Fostoria, OH 44830

We have reviewed the *Independent Auditor's Report* of the City of Fostoria, Seneca County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2014 through December 31, 2014. 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

November 12, 2015

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**CITY OF FOSTORIA  
SENECA COUNTY  
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## **Balestra, Harr & Scherer, CPAs, Inc.**

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### **Independent Auditor's Report**

City of Fostoria  
Seneca County  
213 South Main Street  
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, 2014, 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, 2014, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Fire Department Grant, 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*, as 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.

#### *Supplementary and Other Information*

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Schedule of Federal Award Expenditures (the schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2015, 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.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Worthington, Ohio  
August 24, 2015

## CITY OF FOSTORIA, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014 (Unaudited)

The management's discussion and analysis of the City of Fostoria's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2014. 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 2014 are as follows:

- The total net position of the City increased \$875,219. Net position of governmental activities decreased \$236,280 or 1.67% from 2013 and net position of business-type activities increased \$1,111,499 or 3.71% from 2013.
- General revenues accounted for \$5,802,955 or 56.53% of total governmental activities revenue. Program specific revenues accounted for \$4,462,974 or 43.47% of total governmental activities revenue.
- The City had \$10,499,876 in expenses related to governmental activities; \$4,462,974 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 \$5,802,955 were not adequate to cover the remaining expenses of the governmental activities of \$6,036,902.
- The general fund had revenues of \$6,209,721 in 2014. The expenditures and other financing uses of the general fund totaled \$6,940,888 in 2014. The net decrease in fund balance for the general fund was \$731,167 or 73.60%.
- The fire department grant fund had revenues of \$310,141 in 2014. The expenditures of the fire department grant fund totaled \$158,629 in 2014. The net increase in fund balance for the fire department grant fund was \$151,512 or 6,441.84%.
- The Fostoria revolving loan fund had revenues of \$53,164 in 2014. The expenditures and other financing uses of the Fostoria revolving loan fund totaled \$71,135 in 2014. The net decrease in fund balance for the Fostoria revolving loan fund was \$17,971 or 0.84%.
- Net position for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2014 by \$1,111,499. This increase in net position was due primarily to an increase in charges for services.
- In the general fund, the actual revenues were \$116,545 more than in the final budget and actual expenditures and other financing uses were \$236,452 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues were \$27,794 less than the original revenues. Budgeted expenditures and other financing uses increased \$264,906 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, 2014 (Unaudited)

#### **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 2014?" 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 11.

##### ***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, 2014  
(Unaudited)**

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the General Fund, the Fire Department Grant Fund and the Fostoria Revolving Loan Fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 18-27 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 28-31 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 32-33 of this report.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 34-68 of this report.

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**CITY OF FOSTORIA, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Unaudited)

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net position at December 31, 2014 and December 31, 2013.

	<b>Net Position</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>						
Current and other assets	\$ 6,997,505	\$ 7,342,131	\$ 4,491,072	\$ 3,263,804	\$ 11,488,577	\$ 10,605,935
Capital assets, net	10,295,495	10,254,131	34,771,788	33,156,541	45,067,283	43,410,672
<b>Total assets</b>	<b>17,293,000</b>	<b>17,596,262</b>	<b>39,262,860</b>	<b>36,420,345</b>	<b>56,555,860</b>	<b>54,016,607</b>
<b>Liabilities</b>						
Long-term liabilities outstanding	2,243,768	2,045,257	7,744,537	6,235,212	9,988,305	8,280,469
Other liabilities	553,356	662,765	483,480	261,789	1,036,836	924,554
<b>Total liabilities</b>	<b>2,797,124</b>	<b>2,708,022</b>	<b>8,228,017</b>	<b>6,497,001</b>	<b>11,025,141</b>	<b>9,205,023</b>
<b>Deferred inflows of resources</b>						
Deferred inflows of resources	600,625	756,709	-	-	600,625	756,709
<b>Net Position</b>						
Net investment in capital assets	9,654,844	9,662,810	27,222,494	27,222,253	36,877,338	36,885,063
Restricted	4,986,464	4,367,419	-	-	4,986,464	4,367,419
Unrestricted	(746,057)	101,302	3,812,349	2,701,091	3,066,292	2,802,393
<b>Total net position</b>	<b>\$ 13,895,251</b>	<b>\$ 14,131,531</b>	<b>\$ 31,034,843</b>	<b>\$ 29,923,344</b>	<b>\$ 44,930,094</b>	<b>\$ 44,054,875</b>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2014, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$44,930,094. At year-end, net position was \$13,895,251 and \$31,034,843 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 79.69% 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, 2014, were \$9,654,844 and \$27,222,494 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, \$4,986,464, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance is a deficit unrestricted net position balance of \$746,057.

**CITY OF FOSTORIA, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Unaudited)

The table below shows the changes in net position for 2014 and 2013.

	Governmental		Change in Net Position		Business-type		Total
	Activities		Activities				
	2014	2013	2014	2013	2014	2013	
<b>Revenues:</b>							
Program revenues:							
Charges for services	\$ 748,757	\$ 781,575	\$ 6,725,430	\$ 6,064,568	\$ 7,474,187	\$ 6,846,143	
Operating grants and contributions	3,143,025	1,692,969	-	-	3,143,025	1,692,969	
Capital grants and contributions	<u>571,192</u>	<u>627,692</u>	<u>65,543</u>	<u>-</u>	<u>636,735</u>	<u>627,692</u>	
Total program revenues	<u>4,462,974</u>	<u>3,102,236</u>	<u>6,790,973</u>	<u>6,064,568</u>	<u>11,253,947</u>	<u>9,166,804</u>	
General revenues:							
Property taxes	718,756	596,330	-	-	718,756	596,330	
Income taxes	4,602,796	4,466,942	-	-	4,602,796	4,466,942	
Unrestricted grants and entitlements	269,492	634,740	-	-	269,492	634,740	
Investment earnings	7,870	10,017	-	-	7,870	10,017	
Refunds and reimbursements	3,375	110,805	108	1,946	3,483	112,751	
Miscellaneous	<u>200,666</u>	<u>212,789</u>	<u>38,935</u>	<u>339,976</u>	<u>239,601</u>	<u>552,765</u>	
Total general revenues	<u>5,802,955</u>	<u>6,031,623</u>	<u>39,043</u>	<u>341,922</u>	<u>5,841,998</u>	<u>6,373,545</u>	
Total revenues	<u>10,265,929</u>	<u>9,133,859</u>	<u>6,830,016</u>	<u>6,406,490</u>	<u>17,095,945</u>	<u>15,540,349</u>	
<b>Expenses:</b>							
General government	1,254,904	1,207,641	-	-	1,254,904	1,207,641	
Security of persons and property	5,507,130	5,529,766	-	-	5,507,130	5,529,766	
Public health and welfare	278,433	388,534	-	-	278,433	388,534	
Transportation	1,775,409	1,606,447	-	-	1,775,409	1,606,447	
Community environment	1,528,520	592,214	-	-	1,528,520	592,214	
Leisure time activity	130,259	136,553	-	-	130,259	136,553	
Interest and fiscal charges	25,221	17,308	-	-	25,221	17,308	
Water	-	-	3,100,728	2,832,030	3,100,728	2,832,030	
Sewer	-	-	<u>2,620,122</u>	<u>2,741,298</u>	<u>2,620,122</u>	<u>2,741,298</u>	
Total expenses	<u>10,499,876</u>	<u>9,478,463</u>	<u>5,720,850</u>	<u>5,573,328</u>	<u>16,220,726</u>	<u>15,051,791</u>	
Increase (decrease) in net position before transfers	(233,947)	(344,604)	1,109,166	833,162	875,219	488,558	
Transfers	<u>(2,333)</u>	<u>(11,786)</u>	<u>2,333</u>	<u>11,786</u>	<u>-</u>	<u>-</u>	
Change in net position	(236,280)	(356,390)	1,111,499	844,948	875,219	488,558	
Net position at beginning 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>	
Net position at end of year	<u>\$ 13,895,251</u>	<u>\$ 14,131,531</u>	<u>\$ 31,034,843</u>	<u>\$ 29,923,344</u>	<u>\$ 44,930,094</u>	<u>\$ 44,054,875</u>	

**CITY OF FOSTORIA, OHIO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Unaudited)**

**Governmental Activities**

Governmental activities net position decreased \$236,280 in 2014.

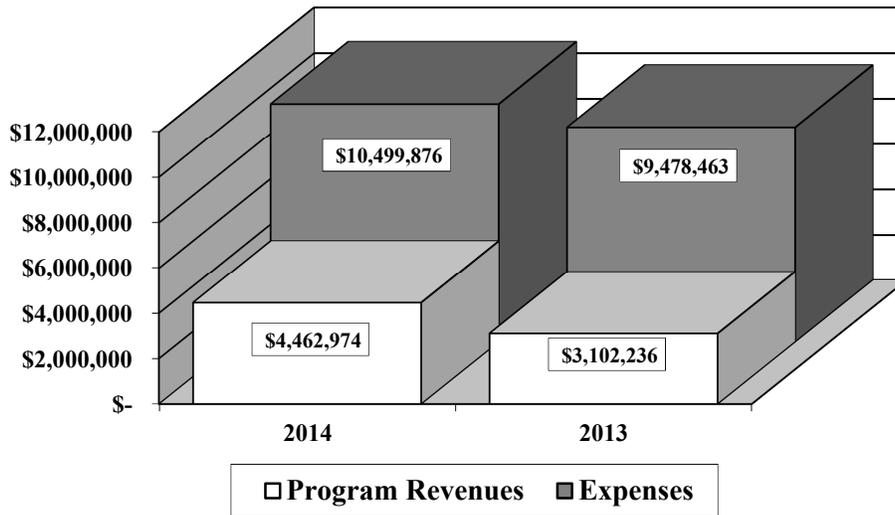
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,507,130 of the total expenses of the City. These expenses were partially funded by \$348,389 in direct charges to users of the services and \$1,185,438 in operating grants and contributions. Transportation expenses totaled \$1,775,409. Transportation expenses were partially funded by \$8,906 in direct charges to users of the services, \$711,936 in operating grants and contributions and \$571,192 in capital grants and contributions.

The state and federal government contributed to the City a total of \$3,143,025 in operating grants and contributions and \$571,192 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$1,185,438 subsidized security of persons and property programs, \$1,166,304 subsidized community environment programs and \$711,936 subsidized transportation programs.

General revenues totaled \$5,802,955, and amounted to 56.53% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$5,321,552. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue, making up \$269,492.

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**

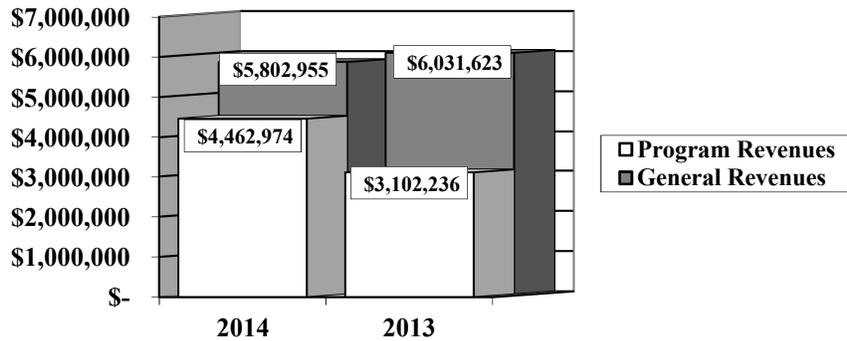
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Unaudited)

**Governmental Activities**

	Total Cost of Services <u>2014</u>	Net Cost of Services <u>2014</u>	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013</u>
Program Expenses:				
General government	\$ 1,254,904	\$ 980,031	\$ 1,207,641	\$ 892,930
Security of persons and property	5,507,130	3,973,303	5,529,766	5,183,410
Public health and welfare	278,433	149,853	388,534	206,421
Transportation	1,775,409	483,375	1,606,447	193,546
Community environment	1,528,520	334,840	592,214	(208,247)
Leisure time activity	130,259	90,279	136,553	90,859
Interest and fiscal charges	<u>25,221</u>	<u>25,221</u>	<u>17,308</u>	<u>17,308</u>
<b>Total</b>	<b><u>\$ 10,499,876</u></b>	<b><u>\$ 6,036,902</u></b>	<b><u>\$ 9,478,463</u></b>	<b><u>\$ 6,376,227</u></b>

The dependence upon general revenues for governmental activities is apparent, with 42.5% of expenses supported through taxes and other general revenues.

**Governmental Activities – General and Program Revenues**



**Business-type Activities**

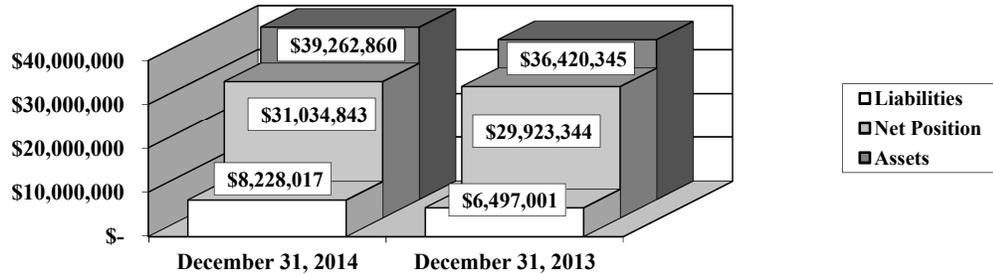
Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$6,790,973, general revenues of \$39,043, transfers in of \$2,333 and expenses of \$5,720,850 for 2014.

**CITY OF FOSTORIA, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Unaudited)

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 21) reported a combined fund balance of \$3,764,986 which is \$680,099 less than last year's total of \$4,445,085. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2014 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/14</u>	Fund Balances <u>12/31/13</u>	<u>Change</u>
Major funds:			
General	\$ 262,245	\$ 993,412	\$ (731,167)
Fire Department Grant	149,160	(2,352)	151,512
Fostoria Revolving Loan	2,124,914	2,142,885	(17,971)
Other nonmajor governmental funds	<u>1,228,667</u>	<u>1,311,140</u>	<u>(82,473)</u>
Total	<u>\$ 3,764,986</u>	<u>\$ 4,445,085</u>	<u>\$ (680,099)</u>

**General Fund**

The City's general fund balance decreased \$731,167.

**CITY OF FOSTORIA, OHIO**

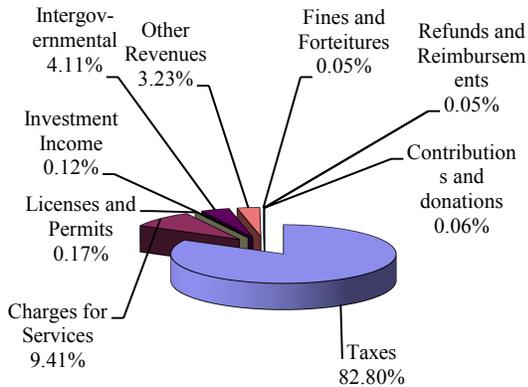
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Unaudited)

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

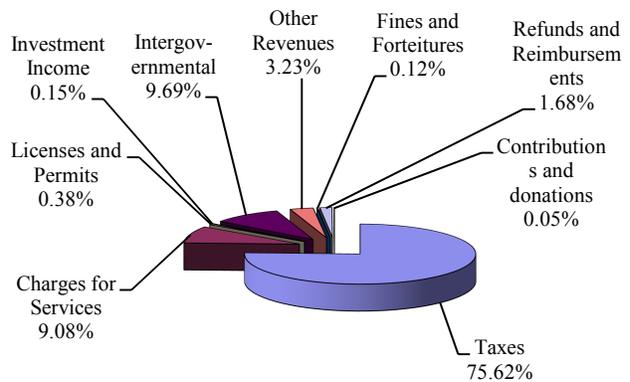
	2014	2013	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b>Revenues</b>			
Taxes	\$ 5,141,643	\$ 4,981,575	3.21 %
Charges for services	584,088	598,057	(2.34) %
Licenses and permits	10,269	25,167	(59.20) %
Fines and forfeitures	2,839	7,784	(63.53) %
Intergovernmental	255,421	638,038	(59.97) %
Investment income	7,780	9,901	(21.42) %
Refunds and reimbursements	3,375	110,805	(96.95) %
Contributions and donations	3,640	3,600	1.11 %
Other	<u>200,666</u>	<u>212,789</u>	(5.70) %
Total	<u>\$ 6,209,721</u>	<u>\$ 6,587,716</u>	(5.74) %

Tax revenue represents 82.80% of all general fund revenue. Tax revenue increased by 3.21% over prior year due primarily to an increase in income tax collections. Fines and forfeitures decreased 63.53% due to decreases in court and traffic related revenues. Licenses and permits decreased 59.20% due to a decrease in plan and specification revenues. Intergovernmental revenues decreased 59.97% due to decreases in local government funding and estate taxes. Investment income decreased 21.42% due to a decrease in the amount held by the City in interest-bearing investment accounts and interest rates. Refunds and reimbursements decreased 96.95% due a large salary and insurance reimbursement that was received in fiscal year 2013 that was not received in fiscal year 2014. All other revenues remained consistent with prior year.

**Revenues – 2014**



**Revenues – 2013**



**CITY OF FOSTORIA, OHIO**

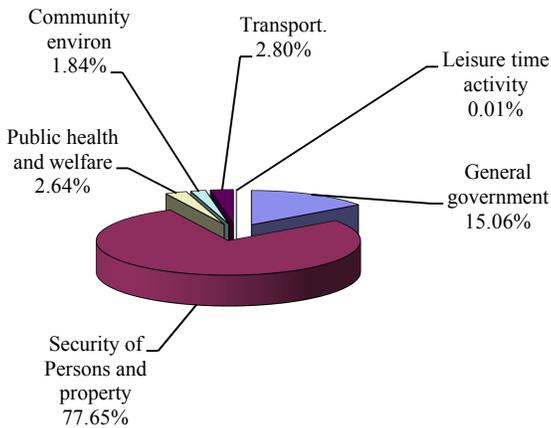
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Unaudited)

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

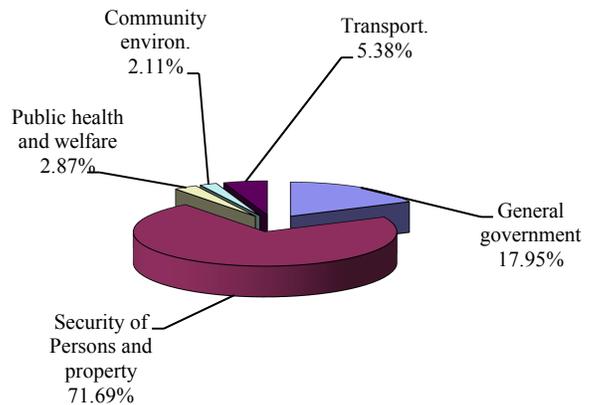
	2014	2013	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 963,902	\$ 1,081,751	(10.89) %
Security of persons and property	4,970,259	4,320,446	15.04 %
Public health and welfare	168,860	172,875	(2.32) %
Transportation	179,147	324,268	(44.75) %
Community environment	118,334	127,389	(7.11) %
Leisure time activity	<u>386</u>	<u>-</u>	100 %
 Total	 <u>\$ 6,400,888</u>	 <u>\$ 6,026,729</u>	 6.21 %

Overall expenditures of the general fund increased \$374,159 or 6.21%. The most significant decrease was in the areas of general government and transportation. General government decreased 10.89% due to a decrease in judicial expenditures. Transportation decreased 44.75% due to decrease in community planning expenditures relating to the loop road project. The most significant increase was in the area of security of persons and property which increased 15.04%. This increase is due to the related expenditures for increased staffing for fire fighters in the current year. All other expenditures remained consistent with prior year.

**Expenditures - 2014**



**Expenditures - 2013**



***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 were \$116,545 more than in the final budget and actual expenditures and other financing uses were \$236,452 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues were \$27,794 less than the original revenues. Budgeted expenditures and other financing uses increased \$264,906 from the original to the final budget.

**CITY OF FOSTORIA, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Unaudited)

***Fire Department Grant Fund***

The fire department grant fund had revenues of \$310,141 in 2014. The expenditures of the fire department grant fund totaled \$158,629 in 2014. The net increase in fund balance for the fire department grant fund was \$151,512 or 6,441.84%. This fund showed increased activity due to the City receiving the SAFER grant.

***Fostoria Revolving Loan Fund***

The Fostoria revolving loan fund had revenues of \$53,164 in 2014. The expenditures and other financing uses of the Fostoria revolving loan fund totaled \$71,135 in 2014. The net decrease in fund balance for the Fostoria revolving loan fund was \$17,971 or 0.84%.

***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 2014, the City had \$45,067,283 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, machinery and equipment, vehicles and infrastructure. Of this total, \$10,295,495 was reported in governmental activities and \$34,771,788 was reported in business-type activities. The following table shows December 31, 2014 balances compared to December 31, 2013.

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

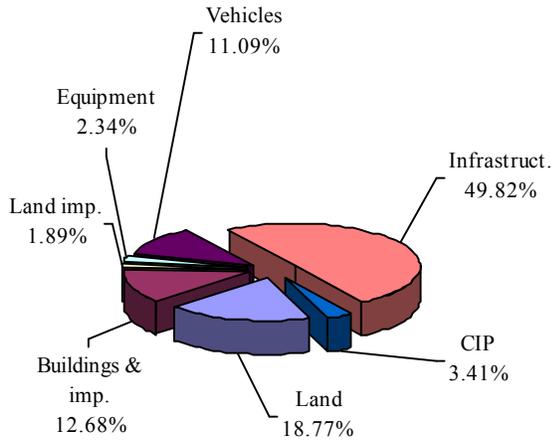
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 1,932,021	\$ 1,932,021	\$ 8,429,538	\$ 8,429,538	\$ 10,361,559	\$ 10,361,559
Construction in progress	351,518	874,438	136,765	2,243,570	488,283	3,118,008
Land improvements	194,901	204,532	-	-	194,901	204,532
Buildings	1,305,389	1,418,113	7,540,558	7,762,961	8,845,947	9,181,074
Machinery and equipment	240,359	229,544	457,265	466,829	697,624	696,373
Vehicles	1,141,816	1,208,874	114,385	140,337	1,256,201	1,349,211
Infrastructure	<u>5,129,491</u>	<u>4,386,609</u>	<u>18,093,277</u>	<u>14,113,306</u>	<u>23,222,768</u>	<u>18,499,915</u>
Totals	<u>\$ 10,295,495</u>	<u>\$ 10,254,131</u>	<u>\$ 34,771,788</u>	<u>\$ 33,156,541</u>	<u>\$ 45,067,283</u>	<u>\$ 43,410,672</u>

**CITY OF FOSTORIA, OHIO**

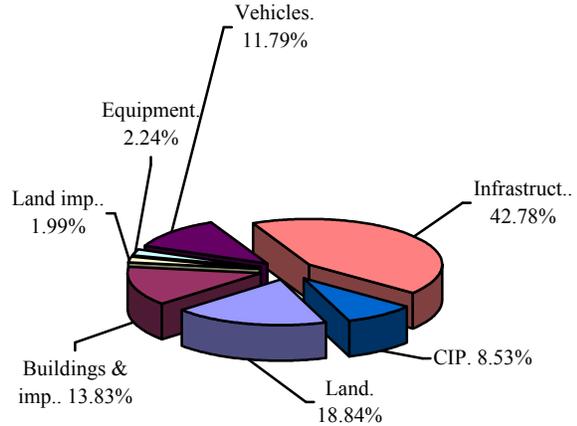
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2014  
(Unaudited)**

The following graphs show the breakdown of governmental capital assets by category for 2014 and 2013.

**Capital Assets - Governmental Activities  
2014**



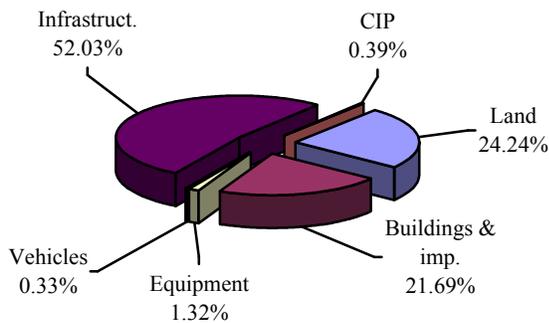
**Capital Assets - Governmental Activities  
2013**



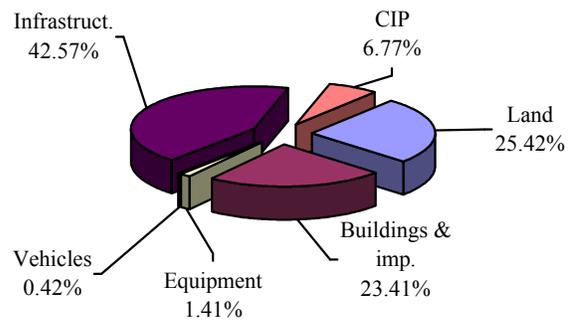
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 49.82% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2014 and 2013.

**Capital Assets - Business-Type Activities 2014**



**Capital Assets - Business-Type Activities 2013**



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 52.03% 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, 2014  
(Unaudited)

***Debt Administration***

The City had the following long-term debt obligations outstanding at December 31, 2014 and 2013:

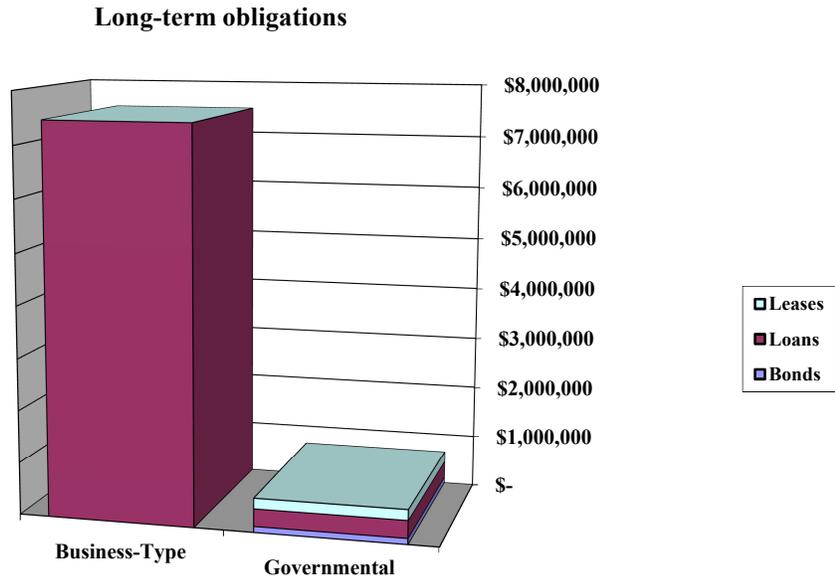
Governmental Activities

	<u>2014</u>	<u>2013</u>
OPWC loans	\$ 92,797	\$ 112,679
Special assessment bonds	112,025	136,165
Equipment loans and notes	236,463	293,897
Capital lease payable	<u>199,366</u>	<u>48,580</u>
Total long-term obligations	<u>\$ 640,651</u>	<u>\$ 591,321</u>

Business-Type Activities

	<u>2014</u>	<u>2013</u>
OWDA loans	\$ 7,102,517	\$ 5,516,712
OPWC loans	<u>374,633</u>	<u>417,576</u>
Total long-term obligations	<u>\$ 7,477,150</u>	<u>\$ 5,934,288</u>

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



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

## **CITY OF FOSTORIA, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014 (Unaudited)**

#### **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 2015 budget.

These economic factors were considered in preparing the City's budget for fiscal year 2015. Budgeted revenues and other financing sources in the general fund for fiscal year 2015 budget are \$6,242,499. 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, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 1,855,449	\$ 3,385,544	\$ 5,240,993
Cash and cash equivalents with fiscal agent. . . . .	28,358	-	28,358
Receivables:			
Income taxes . . . . .	1,077,963	-	1,077,963
Real and other taxes . . . . .	674,962	-	674,962
Accounts. . . . .	97,444	983,171	1,080,615
Payment in lieu of taxes. . . . .	15,588	-	15,588
Due from other governments. . . . .	1,698,821	72,144	1,770,965
Special assessments . . . . .	127,544	-	127,544
Loans . . . . .	1,229,419	-	1,229,419
Materials and supplies inventory. . . . .	132,810	34,142	166,952
Prepayments . . . . .	59,147	16,071	75,218
Capital assets:			
Nondepreciable capital assets . . . . .	2,283,539	8,566,303	10,849,842
Depreciable capital assets, net . . . . .	8,011,956	26,205,485	34,217,441
Total capital assets, net. . . . .	<u>10,295,495</u>	<u>34,771,788</u>	<u>45,067,283</u>
Total assets. . . . .	<u>17,293,000</u>	<u>39,262,860</u>	<u>56,555,860</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	160,256	229,805	390,061
Contracts payable. . . . .	-	72,144	72,144
Accrued wages and benefits . . . . .	127,300	46,479	173,779
Due to other governments . . . . .	176,748	76,439	253,187
Pension obligation payable. . . . .	84,282	23,798	108,080
Accrued interest payable. . . . .	4,770	34,815	39,585
Long-term liabilities:			
Due within one year . . . . .	499,838	667,014	1,166,852
Due in more than one year. . . . .	1,743,930	7,077,523	8,821,453
Total liabilities . . . . .	<u>2,797,124</u>	<u>8,228,017</u>	<u>11,025,141</u>
<b>Deferred inflows of resources:</b>			
Property taxes levied for the next fiscal year. . . . .	585,037	-	585,037
Payment in lieu of taxes levied for the next fiscal year. . . . .	15,588	-	15,588
Total deferred inflows of resources . . . . .	<u>600,625</u>	<u>-</u>	<u>600,625</u>
Total liabilities and deferred inflows of resources	<u>3,397,749</u>	<u>8,228,017</u>	<u>11,625,766</u>
<b>Net position:</b>			
Net investment in capital assets . . . . .	9,654,844	27,222,494	36,877,338
Restricted for:			
Capital projects . . . . .	121,117	-	121,117
Debt service . . . . .	19,355	-	19,355
Security of persons and property. . . . .	1,093,953	-	1,093,953
Transportation projects . . . . .	748,257	-	748,257
Revolving loans . . . . .	2,490,765	-	2,490,765
Public health and welfare . . . . .	155,972	-	155,972
Community environment . . . . .	240,040	-	240,040
Perpetual care:			
Nonexpendable. . . . .	20,050	-	20,050
Other purposes. . . . .	96,955	-	96,955
Unrestricted . . . . .	<u>(746,057)</u>	<u>3,812,349</u>	<u>3,066,292</u>
Total net position . . . . .	<u>\$ 13,895,251</u>	<u>\$ 31,034,843</u>	<u>\$ 44,930,094</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental activities:</b>				
General government . . . . .	\$ 1,254,904	\$ 265,000	\$ 9,873	\$ -
Security of persons and property. . . . .	5,507,130	348,389	1,185,438	-
Public health and welfare . . . . .	278,433	59,328	69,252	-
Transportation . . . . .	1,775,409	8,906	711,936	571,192
Community environment. . . . .	1,528,520	27,376	1,166,304	-
Leisure time activity . . . . .	130,259	39,758	222	-
Interest and fiscal charges . . . . .	25,221	-	-	-
Total governmental activities . . . . .	<u>10,499,876</u>	<u>748,757</u>	<u>3,143,025</u>	<u>571,192</u>
<b>Business-type activities:</b>				
Water. . . . .	3,100,728	3,518,912	-	65,543
Sewer. . . . .	2,620,122	3,206,518	-	-
Total business-type activities. . . . .	<u>5,720,850</u>	<u>6,725,430</u>	<u>-</u>	<u>65,543</u>
Total primary government. . . . .	<u>\$ 16,220,726</u>	<u>\$ 7,474,187</u>	<u>\$ 3,143,025</u>	<u>\$ 636,735</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 . . . . .	
<b>Net position at beginning of year. . . . .</b>	
<b>Net position at end of year . . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (980,031)	\$ -	\$ (980,031)
(3,973,303)	-	(3,973,303)
(149,853)	-	(149,853)
(483,375)	-	(483,375)
(334,840)	-	(334,840)
(90,279)	-	(90,279)
(25,221)	-	(25,221)
<u>(6,036,902)</u>	<u>-</u>	<u>(6,036,902)</u>
-	483,727	483,727
-	586,396	586,396
<u>-</u>	<u>1,070,123</u>	<u>1,070,123</u>
<u>(6,036,902)</u>	<u>1,070,123</u>	<u>(4,966,779)</u>
616,316	-	616,316
102,440	-	102,440
4,602,796	-	4,602,796
269,492	-	269,492
7,870	-	7,870
3,375	108	3,483
200,666	38,935	239,601
<u>5,802,955</u>	<u>39,043</u>	<u>5,841,998</u>
<u>(2,333)</u>	<u>2,333</u>	<u>-</u>
<u>5,800,622</u>	<u>41,376</u>	<u>5,841,998</u>
(236,280)	1,111,499	875,219
<u>14,131,531</u>	<u>29,923,344</u>	<u>44,054,875</u>
<u>\$ 13,895,251</u>	<u>\$ 31,034,843</u>	<u>\$ 44,930,094</u>

**CITY OF FOSTORIA, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014

	<u>General</u>	<u>Fire Department Grant</u>	<u>Fostoria Revolving Loan</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents. . . . .	\$ -	\$ 8,279	\$ 635,289	\$ 1,211,881	\$ 1,855,449
Cash and cash equivalents with fiscal agent. . . . .	9,513	-	-	18,845	28,358
Receivables:					
Income taxes . . . . .	1,077,963	-	-	-	1,077,963
Real and other taxes. . . . .	581,992	-	-	92,970	674,962
Accounts. . . . .	97,444	-	-	-	97,444
Due from other governments . . . . .	151,946	1,033,628	-	513,247	1,698,821
Special assessments . . . . .	-	-	-	127,544	127,544
Due from other funds . . . . .	-	-	260,206	-	260,206
Loans . . . . .	-	-	1,229,419	-	1,229,419
Payment in lieu of taxes . . . . .	-	-	-	15,588	15,588
Advances to other funds . . . . .	17,450	-	-	-	17,450
Materials and supplies inventory . . . . .	-	-	-	132,810	132,810
Prepayments . . . . .	59,147	-	-	-	59,147
<b>Total assets . . . . .</b>	<b>\$ 1,995,455</b>	<b>\$ 1,041,907</b>	<b>\$ 2,124,914</b>	<b>\$ 2,112,885</b>	<b>\$ 7,275,161</b>
<b>Liabilities:</b>					
Accounts payable. . . . .	\$ 82,170	\$ -	\$ -	\$ 78,086	\$ 160,256
Accrued wages and benefits . . . . .	116,814	-	-	10,486	127,300
Advances from other funds . . . . .	-	17,450	-	-	17,450
Due to other governments . . . . .	139,110	-	-	37,638	176,748
Pension obligation payable . . . . .	79,375	-	-	4,907	84,282
Due to other funds . . . . .	127,695	-	-	132,511	260,206
<b>Total liabilities . . . . .</b>	<b>545,164</b>	<b>17,450</b>	<b>-</b>	<b>263,628</b>	<b>826,242</b>
<b>Deferred inflows of resources:</b>					
Property taxes levied for the next fiscal year . . . . .	504,197	-	-	80,840	585,037
Delinquent property tax revenue not available . . . . .	75,717	-	-	12,130	87,847
Special assessments revenue not available . . . . .	-	-	-	127,544	127,544
Income tax revenue not available. . . . .	500,921	-	-	-	500,921
Nonexchange transactions revenue not available. . . . .	107,211	875,297	-	384,488	1,366,996
Payment in lieu of taxes levied for the next fiscal year. . . . .	-	-	-	15,588	15,588
<b>Total deferred inflows of resources . . . . .</b>	<b>1,188,046</b>	<b>875,297</b>	<b>-</b>	<b>620,590</b>	<b>2,683,933</b>
<b>Fund balances:</b>					
Nonspendable . . . . .	76,597	-	-	152,860	229,457
Restricted . . . . .	-	149,160	2,124,914	1,252,432	3,526,506
Committed. . . . .	-	-	-	36,667	36,667
Assigned. . . . .	163,901	-	-	-	163,901
Unassigned (deficit) . . . . .	21,747	-	-	(213,292)	(191,545)
<b>Total fund balances . . . . .</b>	<b>262,245</b>	<b>149,160</b>	<b>2,124,914</b>	<b>1,228,667</b>	<b>3,764,986</b>
<b>Total liabilities, deferred inflows of resources and fund balances . . . . .</b>	<b>\$ 1,995,455</b>	<b>\$ 1,041,907</b>	<b>\$ 2,124,914</b>	<b>\$ 2,112,885</b>	<b>\$ 7,275,161</b>

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, 2014

<b>Total governmental fund balances</b>		\$ 3,764,986
<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.		10,295,495
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes	\$ 500,921	
Property taxes	87,847	
Due from other governments	1,366,996	
Special assessments	<u>127,544</u>	
Total		2,083,308
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.		(4,770)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Special assessment bonds payable	(112,025)	
OPWC loans payable	(92,797)	
Equipment loan payable	(236,463)	
Capital lease payable	(199,366)	
Compensated absences payable	<u>(1,603,117)</u>	
Total		<u>(2,243,768)</u>
<b>Net position of governmental activities</b>		<u><u>\$ 13,895,251</u></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, 2014

	<u>General</u>	<u>Fire Department Grant</u>	<u>Fostoria Revolving Loan</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Municipal income taxes . . . . .	\$ 4,572,884	\$ -	\$ -	\$ -	\$ 4,572,884
Property and other taxes. . . . .	568,759	-	-	93,939	662,698
Charges for services. . . . .	584,088	-	-	35,861	619,949
Licenses and permits . . . . .	10,269	-	-	-	10,269
Fines and forfeitures . . . . .	2,839	-	-	28,136	30,975
Intergovernmental. . . . .	255,421	308,691	-	2,733,765	3,297,877
Special assessments . . . . .	-	-	-	55,851	55,851
Investment income. . . . .	7,780	-	53,164	445	61,389
Rental income . . . . .	-	-	-	7,336	7,336
Refunds and reimbursements . . . . .	3,375	-	-	56,264	59,639
Contributions and donations. . . . .	3,640	1,450	-	1,091	6,181
Other . . . . .	200,666	-	-	76,916	277,582
Total revenues . . . . .	<u>6,209,721</u>	<u>310,141</u>	<u>53,164</u>	<u>3,089,604</u>	<u>9,662,630</u>
<b>Expenditures:</b>					
Current:					
General government . . . . .	963,902	-	-	268,053	1,231,955
Security of persons and property . . . . .	4,970,259	158,629	-	116,714	5,245,602
Public health and welfare. . . . .	168,860	-	-	93,489	262,349
Transportation . . . . .	179,147	-	-	1,060,205	1,239,352
Community environment . . . . .	118,334	-	21,135	1,374,971	1,514,440
Leisure time activity . . . . .	386	-	-	89,341	89,727
Capital outlay . . . . .	-	-	-	785,746	785,746
Debt service:					
Principal retirement. . . . .	-	-	-	209,600	209,600
Interest and fiscal charges . . . . .	-	-	-	22,888	22,888
Total expenditures . . . . .	<u>6,400,888</u>	<u>158,629</u>	<u>21,135</u>	<u>4,021,007</u>	<u>10,601,659</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>(191,167)</u>	<u>151,512</u>	<u>32,029</u>	<u>(931,403)</u>	<u>(939,029)</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	-	626,505	626,505
Transfers (out). . . . .	(540,000)	-	(50,000)	(36,505)	(626,505)
Capital lease transaction. . . . .	-	-	-	258,930	258,930
Total other financing sources (uses) . . . . .	<u>(540,000)</u>	<u>-</u>	<u>(50,000)</u>	<u>848,930</u>	<u>258,930</u>
Net change in fund balances . . . . .	(731,167)	151,512	(17,971)	(82,473)	(680,099)
<b>Fund balances (deficit) at beginning of year .</b>	<u>993,412</u>	<u>(2,352)</u>	<u>2,142,885</u>	<u>1,311,140</u>	<u>4,445,085</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 262,245</u>	<u>\$ 149,160</u>	<u>\$ 2,124,914</u>	<u>\$ 1,228,667</u>	<u>\$ 3,764,986</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, 2014

**Net change in fund balances - total governmental funds** \$ (680,099)

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

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

Capital outlay	\$ 850,507	
Depreciation expense	<u>(737,829)</u>	112,678

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. (71,314)

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

Municipal income taxes	29,912	
Property and other taxes	56,058	
Intergovernmental	549,216	
Special assessments	<u>(31,887)</u>	
Total		603,299

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. (258,930)

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	24,140	
OPWC loans	19,882	
Equipment loans	57,434	
Capital leases	<u>108,144</u>	
Total		209,600

In the statement of activities, interest is accrued on outstanding bonds and leases, whereas in governmental funds, an interest expenditure is reported when due. (2,333)

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. (149,181)

**Change in net position of governmental activities** \$ (236,280)

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 4,496,174	\$ 4,475,807	\$ 4,561,204	\$ 85,397
Property and other taxes . . . . .	560,168	557,631	568,270	10,639
Charges for services . . . . .	596,119	593,419	604,741	11,322
Licenses and permits . . . . .	17,752	17,672	18,009	337
Fines and forfeitures . . . . .	2,799	2,786	2,839	53
Intergovernmental . . . . .	251,318	250,180	254,953	4,773
Investment income . . . . .	7,669	7,634	7,780	146
Refunds and reimbursements . . . . .	3,327	3,312	3,375	63
Contributions and donations . . . . .	3,588	3,572	3,640	68
Other . . . . .	197,305	196,412	200,159	3,747
<b>Total revenues . . . . .</b>	<b>6,136,219</b>	<b>6,108,425</b>	<b>6,224,970</b>	<b>116,545</b>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative and executive . . . . .	909,433	1,017,664	986,464	31,200
Judicial . . . . .	288	34,486	34,333	153
Security of persons and property . . . . .	4,985,186	5,098,600	4,932,040	166,560
Public health and welfare . . . . .	176,843	171,909	166,165	5,744
Transportation . . . . .	61,114	66,403	61,679	4,724
Community environment . . . . .	77,478	86,186	58,115	28,071
<b>Total expenditures . . . . .</b>	<b>6,210,342</b>	<b>6,475,248</b>	<b>6,238,796</b>	<b>236,452</b>
Excess of expenditures over revenues . . . . .	(74,123)	(366,823)	(13,826)	352,997
<b>Other financing sources (uses):</b>				
Transfers (out) . . . . .	(600,000)	(600,000)	(600,000)	-
<b>Total other financing sources (uses) . . . . .</b>	<b>(600,000)</b>	<b>(600,000)</b>	<b>(600,000)</b>	<b>-</b>
Net change in fund balances . . . . .	(674,123)	(966,823)	(613,826)	352,997
<b>Fund balance at beginning of year . . . . .</b>	<b>276,864</b>	<b>276,864</b>	<b>276,864</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>28,580</b>	<b>28,580</b>	<b>28,580</b>	<b>-</b>
<b>Fund balance (deficit) at end of year . . . . .</b>	<b>\$ (368,679)</b>	<b>\$ (661,379)</b>	<b>\$ (308,382)</b>	<b>\$ 352,997</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 FIRE DEPARTMENT GRANT FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental. . . . .	\$ -	\$ -	\$ 150,360	\$ 150,360
Contributions and donations. . . . .	-	-	1,450	1,450
Total revenues . . . . .	-	-	151,810	151,810
<b>Expenditures:</b>				
Current:				
Security of persons and property . . . . .	-	163,283	149,696	13,587
Total expenditures . . . . .	-	163,283	149,696	13,587
Excess (deficiency) of revenues over (under) expenditures. . . . .	-	(163,283)	2,114	165,397
<b>Other financing sources (uses):</b>				
Transfers (out). . . . .	-	-	(9,783)	(9,783)
Total other financing sources (uses) . . . . .	-	-	(9,783)	(9,783)
Net change in fund balances . . . . .	-	(163,283)	(7,669)	155,614
<b>Fund balances at beginning of year . . . . .</b>	15,098	15,098	15,098	-
<b>Fund balance (deficit) at end of year . . . . .</b>	\$ 15,098	\$ (148,185)	\$ 7,429	\$ 155,614

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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Investment income . . . . .	\$ 160	\$ 160	\$ 255	\$ 95
Other . . . . .	224,990	224,990	357,916	132,926
Total revenues . . . . .	<u>225,150</u>	<u>225,150</u>	<u>358,171</u>	<u>133,021</u>
<b>Expenditures:</b>				
Current:				
Community environment . . . . .	30,800	71,434	71,135	299
Total expenditures . . . . .	<u>30,800</u>	<u>71,434</u>	<u>71,135</u>	<u>299</u>
Excess of revenues over expenditures . . . . .	<u>194,350</u>	<u>153,716</u>	<u>287,036</u>	<u>133,320</u>
<b>Other financing sources (uses):</b>				
Transfers (out) . . . . .	-	-	(50,000)	(50,000)
Total other financing sources (uses) . . . . .	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>(50,000)</u>
Net change in fund balances . . . . .	194,350	153,716	237,036	83,320
<b>Fund balances at beginning of year . . . . .</b>	658,159	658,159	658,159	-
<b>Prior year encumbrances appropriated . . . . .</b>	300	300	300	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 852,809</u>	<u>\$ 812,175</u>	<u>\$ 895,495</u>	<u>\$ 83,320</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2014

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and cash equivalents. . . . .	\$ 1,423,603	\$ 1,961,941	\$ 3,385,544
Receivables (net of allowance for uncollectibles):			
Accounts. . . . .	541,734	441,437	983,171
Due from other governments. . . . .	72,144	-	72,144
Materials and supplies inventory . . . . .	22,529	11,613	34,142
Prepayments . . . . .	8,335	7,736	16,071
Total current assets . . . . .	<u>2,068,345</u>	<u>2,422,727</u>	<u>4,491,072</u>
Noncurrent assets:			
Capital assets:			
Nondepreciable capital assets. . . . .	8,258,065	308,238	8,566,303
Depreciable capital assets, net . . . . .	<u>9,750,147</u>	<u>16,455,338</u>	<u>26,205,485</u>
Total capital assets, net. . . . .	<u>18,008,212</u>	<u>16,763,576</u>	<u>34,771,788</u>
Total assets. . . . .	<u>20,076,557</u>	<u>19,186,303</u>	<u>39,262,860</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable. . . . .	155,372	74,433	229,805
Contracts payable. . . . .	72,144	-	72,144
Accrued wages and benefits . . . . .	28,873	17,606	46,479
Due to other governments . . . . .	49,423	27,016	76,439
Pension obligation payable . . . . .	14,412	9,386	23,798
Accrued interest payable . . . . .	10,214	24,601	34,815
Current portion of compensated absences . . . . .	155,046	55,214	210,260
Current portion of OWDA loans . . . . .	114,558	289,223	403,781
Current portion of OPWC loans. . . . .	<u>37,707</u>	<u>15,266</u>	<u>52,973</u>
Total current liabilities. . . . .	<u>637,749</u>	<u>512,745</u>	<u>1,150,494</u>
Long-term liabilities:			
OWDA loans . . . . .	1,142,932	5,555,804	6,698,736
OPWC loans. . . . .	189,211	132,449	321,660
Compensated absences. . . . .	<u>42,126</u>	<u>15,001</u>	<u>57,127</u>
Total long-term liabilities . . . . .	<u>1,374,269</u>	<u>5,703,254</u>	<u>7,077,523</u>
Total liabilities . . . . .	<u>2,012,018</u>	<u>6,215,999</u>	<u>8,228,017</u>
<b>Net position:</b>			
Net investment in capital assets. . . . .	16,451,660	10,770,834	27,222,494
Unrestricted. . . . .	<u>1,612,879</u>	<u>2,199,470</u>	<u>3,812,349</u>
Total net position. . . . .	<u>\$ 18,064,539</u>	<u>\$ 12,970,304</u>	<u>\$ 31,034,843</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, 2014

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Operating revenues:</b>			
Charges for services . . . . .	\$ 3,518,912	\$ 3,206,518	\$ 6,725,430
Other . . . . .	38,460	475	38,935
Refunds and reimbursements . . . . .	108	-	108
<b>Total operating revenues.</b> . . . .	<b>3,557,480</b>	<b>3,206,993</b>	<b>6,764,473</b>
<b>Operating expenses:</b>			
Personal services . . . . .	1,351,437	1,010,988	2,362,425
Contract services. . . . .	105,046	297,692	402,738
Materials and supplies. . . . .	1,002,435	616,637	1,619,072
Utilities . . . . .	201,744	298,632	500,376
Depreciation. . . . .	389,457	339,154	728,611
Other . . . . .	29,448	-	29,448
<b>Total operating expenses.</b> . . . .	<b>3,079,567</b>	<b>2,563,103</b>	<b>5,642,670</b>
<b>Operating income.</b> . . . .	<b>477,913</b>	<b>643,890</b>	<b>1,121,803</b>
<b>Nonoperating revenues (expenses):</b>			
Interest expense and fiscal charges. . . . .	(21,161)	(57,019)	(78,180)
<b>Total nonoperating revenues (expenses)</b> . . . .	<b>(21,161)</b>	<b>(57,019)</b>	<b>(78,180)</b>
<b>Income before transfers</b> . . . . .	<b>456,752</b>	<b>586,871</b>	<b>1,043,623</b>
Transfer in . . . . .	-	7,476	7,476
Transfer out . . . . .	(7,476)	-	(7,476)
Capital contributions. . . . .	65,543	2,333	67,876
<b>Change in net position</b> . . . . .	<b>514,819</b>	<b>596,680</b>	<b>1,111,499</b>
<b>Net position at beginning of year.</b> . . . . .	<b>17,549,720</b>	<b>12,373,624</b>	<b>29,923,344</b>
<b>Net position at end of year</b> . . . . .	<b>\$ 18,064,539</b>	<b>\$ 12,970,304</b>	<b>\$ 31,034,843</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2014

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers . . . . .	\$ 3,420,051	\$ 3,065,915	\$ 6,485,966
Cash received from other operations . . . . .	38,460	475	38,935
Cash received from refunds and reimbursements . . . . .	108	-	108
Cash payments for personal services . . . . .	(1,393,206)	(1,029,579)	(2,422,785)
Cash payments for contractual services . . . . .	(112,631)	(294,579)	(407,210)
Cash payments for materials and supplies . . . . .	(848,848)	(583,523)	(1,432,371)
Cash payments for utilities . . . . .	(201,879)	(298,817)	(500,696)
Cash payments for other expenses . . . . .	(29,359)	-	(29,359)
Net cash provided by operating activities. . . . .	<u>872,696</u>	<u>859,892</u>	<u>1,732,588</u>
<b>Cash flows from noncapital financing activities:</b>			
Cash received from transfers in . . . . .	-	7,476	7,476
Cash used in transfers out . . . . .	(7,476)	-	(7,476)
Net cash provided by noncapital financing activities. . . . .	<u>(7,476)</u>	<u>7,476</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets . . . . .	(115,004)	(2,154,377)	(2,269,381)
Loan issuance. . . . .	-	2,154,377	2,154,377
Principal retirement on loans . . . . .	(145,914)	(472,202)	(618,116)
Interest paid on loans . . . . .	(22,606)	(67,256)	(89,862)
Net cash used in capital and related financing activities. . . . .	<u>(283,524)</u>	<u>(539,458)</u>	<u>(822,982)</u>
Net increase in cash and cash equivalents . . . . .	581,696	327,910	909,606
<b>Cash and cash equivalents at beginning of year. . . . .</b>	<b>841,907</b>	<b>1,634,031</b>	<b>2,475,938</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b><u>\$ 1,423,603</u></b>	<b><u>\$ 1,961,941</u></b>	<b><u>\$ 3,385,544</u></b>

**CITY OF FOSTORIA, OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income. . . . .	\$ 477,913	\$ 643,890	\$ 1,121,803
Adjustments:			
Depreciation. . . . .	389,457	339,154	728,611
Changes in assets and liabilities:			
Decrease/(increase) in materials and supplies inventory.	7,328	2,689	10,017
Decrease in accounts receivable . . . . .	(98,861)	(140,603)	(239,464)
Decrease (increase) in prepayments . . . . .	(8,335)	(7,736)	(16,071)
Increase in accounts payable . . . . .	128,524	39,987	168,511
Increase in accrued wages and benefits . . . . .	(22,866)	(2,979)	(25,845)
(Decrease) in pension obligation payable . . . . .	(919)	(1,135)	(2,054)
(Decrease) in due to other governments . . . . .	24,180	(3,563)	20,617
(Decrease) in compensated absences payable. . . . .	(23,725)	(9,812)	(33,537)
Net cash provided by operating activities . . . . .	\$ 872,696	\$ 859,892	\$ 1,732,588

The City had a loan issuance of \$6,601 in fiscal year 2014 but, as of December 31, 2014 had not received the funds.  
At December 31, 2014, the water fund purchased \$72,144 in capital assets on account.  
At December 31, 2014, the sewer fund received \$20,000 in capital contributions from governmental activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 DECEMBER 31, 2014

	<u>Private-Purpose Trust</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 10,683	\$ 27,001
Total assets. . . . .	<u>10,683</u>	<u>\$ 27,001</u>
<b>Liabilities:</b>		
Accounts payable . . . . .	282	\$ -
Undistributed monies. . . . .	<u>-</u>	<u>27,001</u>
Total liabilities . . . . .	<u>282</u>	<u>\$ 27,001</u>
<b>Net position:</b>		
Held in trust for other purposes . . . . .	<u>10,401</u>	
Total net position . . . . .	<u>\$ 10,401</u>	

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, 2014

	<b>Private-Purpose Trust</b>
<b>Additions:</b>	
Interest . . . . .	\$ 8
Other . . . . .	282
	290
<b>Reductions:</b>	
Other . . . . .	780
	780
Total additions . . . . .	290
Total deductions . . . . .	780
Change in net position . . . . .	(490)
<b>Net position at beginning of year. . . . .</b>	<b>10,891</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 10,401</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## CITY OF FOSTORIA, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

#### 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, 2014

**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, 2014

**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.

Fire department grant fund - The Fostoria fire department grant fund is used to account for revenues restricted for security of persons and property expenditures.

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

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

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

Enterprise funds - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**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.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance 2015 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, 2014, are recorded as deferred inflows on the governmental fund financial statements.

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

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

**F. Budgetary Data**

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

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

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

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

***Estimated Resources*** - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the original and final amended official certificates of estimated resources issued during 2014.

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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

**G. Cash and Cash Equivalents**

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

During 2014, 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, 2014.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2014 amounted to \$7,780, which included \$7,764 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, 2014 was \$18,845. This account is presented on the financial statements as "cash and cash equivalents with fiscal agent". The City has segregated bank accounts for Municipal Court monies and income tax paid by credit card held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "cash in segregated accounts" since they are not required to be deposited into the City treasury.

**H. Inventories of Materials and Supplies**

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

**I. Capital Assets**

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

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

All reported capital assets are depreciated except for land 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.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

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 ten (10) years of service or any age 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.

**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.

Interfund loans that are used to cover negative cash balances are classified as "due to/from other funds". These amounts are eliminated in the governmental activities columns of the statement of net position.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

**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.

*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.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

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.

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For 2014, the City has implemented GASB Statement No. 69, "Government Combinations and Disposals of Government Operations" and GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the City.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the City.

**B. Deficit Fund Balances**

Fund balances at December 31, 2014 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Airport grant fund	\$ 4,459
Grants - Brownfield fund	92,037
Park and Recreation	19,470
CDBG FY04 grant	7,557
General capital improvement fund	83,310
Sewer and water extension fund	6,459

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.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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

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

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

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

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

**A. Cash in Segregated Accounts**

At year end, \$9,513 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, 2014, \$18,845 was on deposit with the City's fiscal agent for undistributed permissive tax received. This amount is excluded from the internal cash pool reported on the balance sheet as "equity in pooled cash and cash equivalents".

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

**C. Deposits with Financial Institutions**

At December 31, 2014, the carrying amount of all City deposits, including cash with fiscal agent and cash in segregated accounts, was \$4,347,371. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2014, \$4,161,163 of the City’s bank balance of \$4,411,163 was exposed to custodial risk as discussed below, while \$250,000 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, 2014, 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>959,664</u>	\$ <u>959,664</u>

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

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

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities to the City Auditor or qualified trustee.

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2014:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ <u>959,664</u>	<u>100.00</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2014:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,347,371
Investments	959,664
Total	<u>\$ 5,307,035</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 1,883,807
Business-type activities	3,385,544
Private-purpose funds	10,683
Agency funds	27,001
Total	<u>\$ 5,307,035</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund transfers for the year ended December 31, 2014, consisted of the following, as reported in the fund financial statements:

Transfers to	Transfers from				
	General	Fostoria Revolving Loan Fund	Nonmajor Governmental Funds	Water	Total
Nonmajor governmental funds	\$ 540,000	\$ 50,000	\$ 36,505	\$ -	\$ 626,505
Sewer fund	-	-	-	7,476	7,476
Total	\$ 540,000	\$ 50,000	\$ 36,505	\$ 7,476	\$ 633,981

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

- B.** Due from/to other funds consisted of the following at December 31, 2014, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Fostoria Revolving Loan fund	General fund	\$ 127,695
Fostoria Revolving Loan fund	Nonmajor governmental funds	<u>132,511</u>
Total		<u>\$ 260,206</u>

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

- C.** Advances to/from other funds consisted of the following at December 31, 2014, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Fire Department Grant Fund	\$ 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 revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2014 public utility property taxes became a lien December 31, 2013, are levied after October 1, 2014, and are collected in 2015 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, 2014**

**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, 2014 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 2014 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, 2014 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	\$ 94,180,230
Commercial/industrial/mineral	45,399,580
Public utility	8,672,880
Total assessed value	<u><u>\$ 148,252,690</u></u>

**NOTE 7 - LOCAL INCOME TAX**

This locally levied tax of 2 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City, and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of for-profit organizations conducting business within the City. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2014 was \$4,572,884 as reported on the fund financial statements.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2014, 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, 2014, as well as intended to finance 2014 operations.

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

**Governmental activities:**

Income taxes	\$ 1,077,963
Real and other taxes	674,962
Accounts	97,444
Payment in lieu of taxes	15,588
Due from other governments	1,698,821
Special assessments	127,544
Loans	1,229,419

**Business-type activities:**

Accounts	983,171
Due from other governments	72,144

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 2014, there were loans outstanding to businesses with a total principal balance due of \$1,229,419.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 10 - CAPITAL ASSETS**

<b><u>Governmental activities:</u></b>	Restated Balance 12/31/13	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/14
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,932,021	\$ -	\$ -	\$ 1,932,021
Construction in progress	874,438	658,235	(1,181,155)	351,518
Total capital assets, not being depreciated	<u>2,806,459</u>	<u>658,235</u>	<u>(1,181,155)</u>	<u>2,283,539</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	579,800	-	-	579,800
Buildings	7,385,937	-	-	7,385,937
Machinery and equipment	1,641,738	58,135	(9,750)	1,690,123
Vehicles	3,100,847	134,137	(20,000)	3,214,984
Infrastructure	8,087,492	1,112,174	-	9,199,666
Total capital assets, being depreciated	<u>20,795,814</u>	<u>1,304,446</u>	<u>(29,750)</u>	<u>22,070,510</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(375,268)	(9,631)	-	(384,899)
Buildings	(5,967,824)	(112,724)	-	(6,080,548)
Machinery and equipment	(1,412,194)	(47,320)	9,750	(1,449,764)
Vehicles	(1,891,973)	(198,862)	17,667	(2,073,168)
Infrastructure	(3,700,883)	(369,292)	-	(4,070,175)
Total accumulated depreciation	<u>(13,348,142)</u>	<u>(737,829)</u>	<u>27,417</u>	<u>(14,058,554)</u>
Total capital assets, being depreciated, net	<u>7,447,672</u>	<u>566,617</u>	<u>(2,333)</u>	<u>8,011,956</u>
Government-type activities capital assets, net	<u>\$ 10,254,131</u>	<u>\$ 1,224,852</u>	<u>\$ (1,183,488)</u>	<u>\$ 10,295,495</u>

The beginning balances for machinery and equipment assets and the corresponding accumulated depreciation for those assets were adjusted due to the misclassification of disposal between business-type activities and governmental activities assets in fiscal year 2013. During fiscal year 2014 the beginning balances for these assets for machinery and equipment and their corresponding accumulated depreciation were restated to correct this misclassification but, this had no net effect on net capital assets.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

<b><u>Business-type activities:</u></b>	<u>Restated Balance 12/31/13</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/14</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 8,429,538	\$ -	\$ -	\$ 8,429,538
Construction in progress	<u>2,243,570</u>	<u>2,291,142</u>	<u>(4,397,947)</u>	<u>136,765</u>
Total capital assets, not being depreciated	<u>10,673,108</u>	<u>2,291,142</u>	<u>(4,397,947)</u>	<u>8,566,303</u>
<i>Capital assets, being depreciated:</i>				
Buildings	14,313,513	-	-	14,313,513
Machinery and equipment	1,191,352	40,383	-	1,231,735
Vehicles	959,469	30,000	-	989,469
Infrastructure	<u>23,800,448</u>	<u>4,397,947</u>	<u>-</u>	<u>28,198,395</u>
Total capital assets, being depreciated	<u>40,264,782</u>	<u>4,468,330</u>	<u>-</u>	<u>44,733,112</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(6,550,552)	(222,403)	-	(6,772,955)
Machinery and equipment	(724,523)	(49,947)	-	(774,470)
Vehicles	(819,132)	(55,952)	-	(875,084)
Infrastructure	<u>(9,687,142)</u>	<u>(417,976)</u>	<u>-</u>	<u>(10,105,118)</u>
Total accumulated depreciation	<u>(17,781,349)</u>	<u>(746,278)</u>	<u>-</u>	<u>(18,527,627)</u>
Total capital assets, being depreciated, net	<u>22,483,433</u>	<u>3,722,052</u>	<u>-</u>	<u>26,205,485</u>
Business-type activities capital assets, net	<u>\$ 33,156,541</u>	<u>\$ 6,013,194</u>	<u>\$ (4,397,947)</u>	<u>\$ 34,771,788</u>

The beginning balances for machinery and equipment assets and the corresponding accumulated depreciation for those assets were adjusted due to the misclassification of disposal between business-type activities and governmental activities assets in fiscal year 2013. During fiscal year 2014 the beginning balances for these assets for machinery and equipment and their corresponding accumulated depreciation were restated to correct this misclassification but, this had no net effect on net capital assets.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

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

**Governmental activities:**

General government	\$ 11,884
Security of persons and property	212,744
Public health and welfare	26,871
Transportation	446,137
Community environment	855
Leisure time activity	<u>39,338</u>
Total depreciation expense - governmental activities	<u>\$ 737,829</u>

**Business-type activities:**

Water	\$ 389,457
Sewer	<u>339,154</u>
Total depreciation expense - business-type activities	<u>\$ 728,611</u>

In the current year, a \$20,000 vehicle with an accumulated depreciation of \$17,667 was transferred from governmental activities to a business-type activities asset. This transfer caused a difference of \$17,667 in accumulated depreciation in the schedule compared to the depreciation expense amounts by program for the business-type activities.

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

In current and prior years, the City entered into capitalized lease agreements for the acquisition of heavy equipment, including salt trucks 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 \$352,650. Accumulated depreciation as of December 31, 2014 was \$54,236, leaving a current book value of \$298,414. 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 2014 totaled \$108,144 and \$6,200, respectively, in the general capital improvements fund.

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2014:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2015	\$ 77,772
2016	77,774
2017	<u>63,140</u>
Total future minimum lease payments	218,686
Less: amount representing interest	<u>(19,320)</u>
Present value of future minimum lease payments	<u>\$ 199,366</u>

**NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS**

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

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

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

Vacation is accumulated based upon length of service as follows:

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS - (Continued)**

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

**NOTE 13 - LONG-TERM OBLIGATIONS**

A. During 2014, the following changes occurred in the City's governmental long-term obligations:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/14</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>							
<u>OWPC loans payable:</u>							
OPWC - Kelly Storm Sewer	05/08/98	0%	\$ 36,618	\$ -	\$ (8,137)	\$ 28,481	\$ 8,137
OPWC - Circle Drive	12/1/00	0%	8,200	-	(2,050)	6,150	2,050
OPWC - Sandusky Sewer Pump	6/9/10	0%	<u>67,861</u>	<u>-</u>	<u>(9,695)</u>	<u>58,166</u>	<u>9,695</u>
Total OPWC loans			<u>112,679</u>	<u>-</u>	<u>(19,882)</u>	<u>92,797</u>	<u>19,882</u>
<u>Special assessment bonds:</u>							
Kelly Addition	07/23/98	5.95%	<u>136,165</u>	<u>-</u>	<u>(24,140)</u>	<u>112,025</u>	<u>25,597</u>
Total special assessment bonds			<u>136,165</u>	<u>-</u>	<u>(24,140)</u>	<u>112,025</u>	<u>25,597</u>
<u>Other long-term obligations:</u>							
Equipment note			41,861	-	(9,999)	31,862	10,304
Ambulance note			252,036	-	(47,435)	204,601	48,878
Capital lease obligations			48,580	258,930	(108,144)	199,366	67,864
Compensated absences payable			<u>1,453,936</u>	<u>466,961</u>	<u>(317,780)</u>	<u>1,603,117</u>	<u>327,313</u>
Total other long-term obligations			<u>1,796,413</u>	<u>725,891</u>	<u>(483,358)</u>	<u>2,038,946</u>	<u>454,359</u>
Total governmental activities			<u>\$ 2,045,257</u>	<u>\$ 725,891</u>	<u>\$ (527,380)</u>	<u>\$ 2,243,768</u>	<u>\$ 499,838</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

**B.** During 2014, the following changes occurred in the City's business-type activities long-term obligations.

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/14</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>							
<u>OWDA loans payable:</u>							
OWDA loan #3240	10/15/00	4.55%	\$ 500,375	\$ -	\$ (61,992)	\$ 438,383	\$ 64,915
OWDA loan #5426	11/19/09	0.00%	868,750	-	(49,643)	819,107	49,643
OWDA loan #6498	10/10/13	2.57%	2,243,570	2,154,377	-	4,397,947	84,792
OWDA loan #2262	07/01/95	4.56%	599,390	-	(394,959)	204,431	204,431
OWDA loan #5702	03/16/06	3.20%	1,304,627	-	(61,978)	1,242,649	-
Total OWDA loans			<u>5,516,712</u>	<u>2,154,377</u>	<u>(568,572)</u>	<u>7,102,517</u>	<u>403,781</u>
<u>OPWC loans payable:</u>							
Fremont Street Pump Station	05/10/01	0.00%	16,377	-	(4,679)	11,698	4,679
Reservoir Rehabilitation	4/23/04	0.00%	17,130	-	(6,852)	10,278	10,277
Columbus Avenue CP15K	1/1/09	0.00%	79,311	-	(3,110)	76,201	3,110
Culbertson Street Water Tower		0.00%	46,901	-	(6,253)	40,648	6,254
North Poplar Street							
Sanitary Sewer and Waterline		0.00%	67,292	-	(7,476)	59,816	7,477
Zeller Road South Water Tower							
Cleaning and Painting		0.00%	177,069	-	(19,675)	157,394	19,675
Spruce Street Waterline improvements		0.00%	13,496	-	(1,499)	11,997	1,501
Jackson Street Waterline		0.00%	-	6,601	-	6,601	-
Total OPWC loans			<u>417,576</u>	<u>6,601</u>	<u>(49,544)</u>	<u>374,633</u>	<u>52,973</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			300,924	170,599	(204,136)	267,387	210,260
Total other long-term obligations			<u>300,924</u>	<u>170,599</u>	<u>(204,136)</u>	<u>267,387</u>	<u>210,260</u>
Total business-type activities			<u>\$ 6,235,212</u>	<u>\$ 2,331,577</u>	<u>\$ (822,252)</u>	<u>\$ 7,744,537</u>	<u>\$ 667,014</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. OPWC loan for Jackson Street Waterline was not closed out as of December 31, 2014. Future annual debt service principal and interest requirements for these loans, which have a balance of \$6,601 at December 31, 2014, are not available.

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.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

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

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

The compensated absences liability will be paid from the following funds: general fund, street construction, maintenance & repair fund, termination benefits fund, water fund 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 began disbursement on October 10, 2013 and carries an interest rate of 2.57%. During 2014, the loan was completely disbursed and the projects had a final cost of \$4,397,947.

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, 2014, the City has outstanding borrowings of \$7,102,517. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. OWDA loan #5702 was not closed out as of December 31, 2014. Future annual debt service principal and interest requirements for these loans, which have a balance of \$1,242,649 at December 31, 2014, 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 2035. 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 \$8,430,462. Principal and interest paid for the current year were \$614,058 and total customer net revenues were \$1,850,414.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

D. A summary of the City's future debt service requirements as of December 31, 2014 follows:

Future Payment Due In	Business-Type OWDA Loans			Business-Type OPWC Loans	Governmental OPWC Loans
	Principal	Interest	Total	Principal Only	Principal Only
2015	\$ 403,781	\$ 80,684	\$ 484,465	\$ 49,545	\$ 19,882
2016	290,483	126,366	416,849	46,120	19,882
2017	298,160	118,689	416,849	40,354	19,883
2018	306,102	110,747	416,849	38,015	13,764
2019	314,322	102,528	416,850	38,015	9,695
2020 - 2024	1,338,045	407,818	1,745,863	110,884	9,691
2025 - 2029	1,393,610	267,656	1,661,266	15,551	-
2030 - 2034	1,375,852	111,665	1,487,517	15,551	-
2035 - 2039	139,513	1,792	141,305	13,997	-
Total	<u>\$ 5,859,868</u>	<u>\$ 1,327,945</u>	<u>\$ 7,187,813</u>	<u>\$ 368,032</u>	<u>\$ 92,797</u>

Future Payment Due In	Governmental Special Assessment Bonds			Equipment Loan		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 25,597	\$ 6,289	\$ 31,886	\$ 10,304	\$ 969	\$ 11,273
2016	27,128	4,758	31,886	10,618	655	11,273
2017	28,781	3,105	31,886	10,940	333	11,273
2018	30,519	1,367	31,886	-	-	-
Total	<u>\$ 112,025</u>	<u>\$ 15,519</u>	<u>\$ 127,544</u>	<u>\$ 31,862</u>	<u>\$ 1,957</u>	<u>\$ 33,819</u>

Future Payment Due In	Ambulance Loan		
	Principal	Interest	Total
2015	\$ 48,878	\$ 6,223	\$ 55,101
2016	50,352	4,749	55,101
2017	51,896	3,205	55,101
2018	53,475	1,626	55,101
Total	<u>\$ 204,601</u>	<u>\$ 15,803</u>	<u>\$ 220,404</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, 2014 the City's total voted debt margin was \$15,589,418 and the unvoted debt margin was \$8,153,898; both amounts include available funds of \$22,886.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**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, 2014, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

PEP’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2014 and 2013:

<u>Casualty &amp; Property Coverage</u>	<u>2014</u>	<u>2013</u>
Assets	\$35,402,177	\$34,411,883
Liabilities	<u>(12,363,257)</u>	<u>(12,760,194)</u>
Retained earnings	<u>\$23,038,920</u>	<u>\$21,651,689</u>

At December 31, 2014 and 2013, respectively, the liabilities above include approximately \$11.2 million and \$11.6 million of estimated incurred claims payable. The assets above also include approximately \$10.8 million and \$11.1 million of unpaid claims to be billed to approximately 488 and 475 member governments in the future, as of December 31, 2014 and 2013, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the City’s share of these unpaid claims collectible in future years is approximately \$119,000.

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

<u>Contributions to PEP</u>	
<u>2014</u>	<u>2013</u>
\$180,523	\$171,418

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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

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

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

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

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

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 2013.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**NOTE 15 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 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 2014, member and employer contribution rates were consistent across all three plans. The 2014 member contribution rates were 10.00%. The City's contribution rate for 2014 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan and Combined Plan for 2014 was 12.00%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2014, 2013, and 2012 were \$329,442, \$358,595, and \$285,766, respectively; 92.54% has been contributed for 2014 and 100% has been contributed for 2013 and 2012. The remaining 2014 pension liability has been reported as pension obligation payable on the basic financial statements. Contributions to the Member-Directed Plan for 2014 were \$5,430 made by the City and \$3,879 made by the plan members.

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

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

## CITY OF FOSTORIA, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

#### NOTE 15 - PENSION PLANS - (Continued)

Funding Policy - From January 1, 2014 through July 1, 2014, plan members were required to contribute 10.75% of their annual covered salary. From July 2, 2014 through December 31, 2014, plan members were required to contribute 11.50% of their annual covered salary. Throughout 2014, 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 2014, the portion of the City's contributions to fund pension obligations was 19.00% for police officers and 23.50% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$320,406 and \$301,996 for the year ended December 31, 2014, \$286,168 and \$302,496 for the year ended December 31, 2013, and \$187,720 and \$193,351, for the year ended December 31, 2012. 100% has been contributed for 2013 and 2012. 92.93% has been contributed for police and 92.01% has been contributed for firefighters for 2014. The remaining 2014 pension liability has been reported as pension obligation payable on the basic financial statements.

#### NOTE 16 - POSTRETIREMENT BENEFIT PLANS

##### A. Ohio Public Employees Retirement System

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

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details. 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.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2014, 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 and Combined Plan for 2014 was 2.00%.

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, 2014, 2013, and 2012 were \$54,012, \$127,584, and \$115,450, respectively; 92.54% has been contributed for 2014 and 100% has been contributed for 2013 and 2012. The remaining 2014 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 4.00% of the employer contributions toward the health care fund after the end of the transition period.

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

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

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2014, the portion of employer contributions allocated to health care was 0.50% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$8,432 and \$6,425 for the year ended December 31, 2014, \$64,074 and \$53,122 for the year ended December 31, 2013, and \$99,381 and \$75,659, for the year ended December 31, 2012. 100% has been contributed for 2013 and 2012. 92.93% has been contributed for police and 92.01% has been contributed for firefighters for 2014. The remaining 2014 post-employment health care benefits liability has been reported as pension obligation payable on the basic financial statements.

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

- (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>	Fire Department <u>Grant Fund</u>	Fostoria Revolving <u>Loan Fund</u>
Budget basis	\$ (613,826)	\$ (7,669)	\$ 237,036
Net adjustment for revenue accruals	(15,756)	158,331	(305,007)
Net adjustment for expenditure accruals	5,808	-	50,000
Funds budgeted elsewhere	(130,192)	-	-
Adjustment for encumbrances	<u>22,799</u>	<u>850</u>	<u>-</u>
GAAP basis	<u>\$ (731,167)</u>	<u>\$ 151,512</u>	<u>\$ (17,971)</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.

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**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014

**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	Fire Department Grant	Fostoria Revolving Loan	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepayments	\$ -	\$ -	\$ -	\$ 132,810	\$ 132,810
Long-term loans	76,597	-	-	-	76,597
Permanent fund	-	-	-	20,050	20,050
Total nonspendable	<u>76,597</u>	<u>-</u>	<u>-</u>	<u>152,860</u>	<u>229,457</u>
Restricted:					
Capital projects	-	-	-	50	50
Debt service	-	-	-	22,886	22,886
Security of persons and property	-	149,160	-	124,050	273,210
Transportation projects	-	-	-	448,204	448,204
Revolving loans	-	-	2,124,914	365,851	2,490,765
Public health and welfare	-	-	-	94,498	94,498
Community environment	-	-	-	102,112	102,112
Other purposes	-	-	-	94,781	94,781
Total restricted	<u>-</u>	<u>149,160</u>	<u>2,124,914</u>	<u>1,252,432</u>	<u>3,526,506</u>
Committed:					
General government	-	-	-	29,186	29,186
Fostoria community trust	-	-	-	2,668	2,668
General capital improvements	-	-	-	4,813	4,813
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,667</u>	<u>36,667</u>
Assigned:					
General government	11,692	-	-	-	11,692
Security of persons and property	3,120	-	-	-	3,120
Transportation	145,496	-	-	-	145,496
Community and environment	3,593	-	-	-	3,593
Total assigned	<u>163,901</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,901</u>
Unassigned	<u>21,747</u>	<u>-</u>	<u>-</u>	<u>(213,292)</u>	<u>(191,545)</u>
Total fund balances	<u>\$ 262,245</u>	<u>\$ 149,160</u>	<u>\$ 2,124,914</u>	<u>\$ 1,228,667</u>	<u>\$ 3,764,986</u>

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**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	\$ 6,013
Fire department grant fund	850
Other governmental funds	<u>24,710</u>
Total	<u>\$ 31,573</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, 2014, 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 - COMPLIANCE**

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

**City of Fostoria, Ohio**  
*Schedule of Federal Awards Expenditures*  
*For the Year Ended December 31, 2014*

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>U.S. Department of Housing and Urban Development</b>			
<i>Passed through the Ohio Department of Development:</i>			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Community Development Block Grant-CHIP	A-C-12-2BN-1	14.228	94,281
HOME Investment Partnership Program - CHIP	A-C-12-2BN-2	14.239	<u>301,629</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>395,910</b>
<b>U.S. Department of Transportation</b>			
<i>Federal Aviation Administration</i>			
<i>Direct from the Federal Government:</i>			
Airport Improvement Program	n/a	20.106	<u>340,685</u>
<i>Federal Highway Administration</i>			
<i>Passed through the Ohio Department of Transportation:</i>			
Highway Planning and Construction	PID 84048	20.205	<u>306,717</u>
<b>Total U.S. Department of Transportation</b>			<b>647,402</b>
<b>U.S. Department of Homeland Security</b>			
<i>Direct from the Federal Government:</i>			
Staffing for Adequate Fire and Emergency Response (SAFER)	n/a	97.083	<u>158,629</u>
<b>Total U.S. Department of Homeland Security</b>			<b>158,629</b>
<b>Total Federal Expenditures</b>			<b><u>\$1,201,941</u></b>

N/A - pass through entity number not available

See accompanying notes to the schedule of federal awards expenditures.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the City's federal award 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.



# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

## 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 Street  
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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County, (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 24, 2015.

### 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 circumstance 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 matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

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

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.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Worthington, Ohio  
August 24, 2015



# Balestra, Harr & Scherer, CPAs, Inc.

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[www.bhscpas.com](http://www.bhscpas.com)

## Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

To the City Council:

### Report on Compliance for Each Major Federal Program

We have audited the City of Fostoria's (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City of Fostoria's major federal programs for the year ended December 31, 2014. 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 each of 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 of Fostoria complied, in all material respects, with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2014.

### **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 the 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.

*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 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 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.

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

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.

*Balestra, Harr & Scherer, CPAs*  
Balestra, Harr & Scherer, CPAs, Inc.  
Worthington, Ohio  
August 24, 2015

**CITY OF FOSTORIA, OHIO**

**Schedule of Findings  
OMB Circular A-133 Section §.505  
December 31, 2014**

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

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under §.510(a)?	No
(d)(1)(vii)	Major Programs (list):	Airport Improvement Program, CFDA# 20.106 Highway Planning and Construction, CFDA# 20.205
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CITY OF FOSTORIA, OHIO**

**Schedule of Findings  
OMB Circular A-133 Section §.505  
December 31, 2014**

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

**FINDING NUMBER 2014-001 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, 2014, the following funds' appropriations exceeded total estimated resources:

General Fund (\$661,379)

Fire Department Grant Fund (\$148,185)

General Capital Fund (\$2,614)

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.

**3. FINDINGS FOR FEDERAL AWARDS**

**None noted**

**CITY OF FOSTORIA, OHIO**

*Schedule of Prior Audit Findings  
For the Year Ended December 31, 2014*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2013-01	Noncompliance – ORC 5705.39 – Appropriations in excess of estimated resources	No	Reissued as 2014-001
2013-02	Material Weakness – Federal Schedule inaccuracy	Yes	



# Dave Yost • Auditor of State

**CITY OF FOSTORIA**

**SENECA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 24, 2015**