

CITY OF FOSTORIA

SENECA COUNTY

Audit Report

For the Year Ended December 31, 2011

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



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the City of Fostoria, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. 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 9, 2012

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CITY OF FOSTORIA
 SENECA COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2011

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

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Fostoria Revolving Loan Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The schedule of federal awards expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Charles E. Harris & Associates, Inc.

August 30, 2012

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (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, 2011. 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 2011 are as follows:

- The total net assets of the City decreased \$330,475. Net assets of governmental activities increased \$45,672 or 0.32% from 2010 and net assets of business-type activities decreased \$376,147 or 1.29% from 2010.
- General revenues accounted for \$6,407,531 or 73.82% of total governmental activities revenue. Program specific revenues accounted for \$2,272,671 or 26.18% of total governmental activities revenue.
- The City had \$8,633,228 in expenses related to governmental activities; \$2,272,671 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$6,407,531 were not adequate to cover the remaining expenses of the governmental activities of \$6,360,557.
- The general fund had revenues and other financing sources of \$6,368,988 in 2011. This represents a decrease of \$363,423 from 2010 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$6,477,170 in 2011, decreased \$750,418 from 2010. The net decrease in fund balance for the general fund was \$108,182 or 13.91%.
- The Fostoria revolving loan fund had revenues of \$233,550 in 2011. This represents an increase of \$188,587 from 2010 revenues. The expenditures of the Fostoria revolving loan fund, which totaled \$30,694 in 2011, increased \$4,294 from 2010. The net increase in fund balance for the Fostoria revolving loan fund was \$202,856 or 10.60%.
- Net assets for the business-type activities, which are made up of the water and sewer enterprise funds, decreased in 2011 by \$376,147. This increase in net assets was due primarily to an increase in capital contributions.
- In the general fund, the actual revenues and other financing sources were \$46,998 less than in the final budget and actual expenditures and other financing uses were \$197,391 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues and other financing sources were \$445,000 more than the original revenues and other financing sources. Budgeted expenditures and other financing uses increased \$261,487 from the original to the final budget.

Using this Annual Financial Report

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

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

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Governmental activities - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water and sewer operations are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(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 and the Fostoria revolving loan fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20-24 of this report.

Proprietary Funds

The City maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activities. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City has no internal service funds. The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-65 of this report.

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets at December 31, 2011 and December 31, 2010.

	Net Assets					
	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets						
Current and other assets	\$ 7,323,820	\$ 7,231,921	\$ 2,515,599	\$ 2,571,515	\$ 9,839,419	\$ 9,803,436
Capital assets, net	<u>9,822,845</u>	<u>9,843,595</u>	<u>31,255,250</u>	<u>31,954,792</u>	<u>41,078,095</u>	<u>41,798,387</u>
Total assets	<u>17,146,665</u>	<u>17,075,516</u>	<u>33,770,849</u>	<u>34,526,307</u>	<u>50,917,514</u>	<u>51,601,823</u>
Liabilities						
Long-term liabilities outstanding	1,617,650	1,666,301	4,651,190	4,763,271	6,268,840	6,429,572
Other liabilities	<u>1,385,429</u>	<u>1,311,301</u>	<u>304,828</u>	<u>572,058</u>	<u>1,690,257</u>	<u>1,883,359</u>
Total liabilities	<u>3,003,079</u>	<u>2,977,602</u>	<u>4,956,018</u>	<u>5,335,329</u>	<u>7,959,097</u>	<u>8,312,931</u>
Net Assets						
Invested in capital assets, net of related debt	9,437,938	9,339,509	26,856,858	27,467,503	36,294,796	36,807,012
Restricted	4,031,688	4,900,050	-	-	4,031,688	4,900,050
Unrestricted (deficit)	<u>673,960</u>	<u>(141,645)</u>	<u>1,957,973</u>	<u>1,723,475</u>	<u>2,631,933</u>	<u>1,581,830</u>
Total net assets	<u>\$ 14,143,586</u>	<u>\$ 14,097,914</u>	<u>\$ 28,814,831</u>	<u>\$ 29,190,978</u>	<u>\$ 42,958,417</u>	<u>\$ 43,288,892</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$42,958,417. At year-end, net assets were \$14,143,586 and \$28,814,831 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 80.68% of total assets. Capital assets include land, land improvements, buildings, machinery and equipment, vehicles, and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2011, were \$9,437,938 and \$26,856,858 in the governmental and business-type activities respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$4,031,688, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance is an unrestricted net assets balance of \$673,960.

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

The table below shows the changes in net assets for 2011 and 2010.

	Governmental		Change in Net Assets		Business-type		Total
	Activities		Activities				
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
Revenues:							
Program revenues:							
Charges for services	\$ 618,767	\$ 619,443	\$ 5,508,572	\$ 5,497,591	\$ 6,127,339	\$ 6,117,034	
Operating grants and contributions	1,646,445	1,346,962	-	-	1,646,445	1,346,962	
Capital grants and contributions	7,459	412,277	-	800,000	7,459	1,212,277	
Total program revenues	<u>2,272,671</u>	<u>2,378,682</u>	<u>5,508,572</u>	<u>6,297,591</u>	<u>7,781,243</u>	<u>8,676,273</u>	
General revenues:							
Property taxes	907,322	718,078	-	-	907,322	718,078	
Income taxes	4,396,820	4,563,495	-	-	4,396,820	4,563,495	
Unrestricted grants and entitlements	474,660	736,337	-	-	474,660	736,337	
Investment earnings	47,642	57,575	-	-	47,642	57,575	
Refunds and reimbursements	154,464	196,566	-	-	154,464	196,566	
Miscellaneous	426,623	166,317	49,259	237,643	475,882	403,960	
Total general revenues	<u>6,407,531</u>	<u>6,438,368</u>	<u>49,259</u>	<u>237,643</u>	<u>6,456,790</u>	<u>6,676,011</u>	
Total revenues	<u>8,680,202</u>	<u>8,817,050</u>	<u>5,557,831</u>	<u>6,535,234</u>	<u>14,238,033</u>	<u>15,352,284</u>	
Expenses:							
General government	1,516,949	1,734,259	-	-	1,516,949	1,734,259	
Security of persons and property	4,965,731	4,804,333	-	-	4,965,731	4,804,333	
Public health and welfare	382,909	248,302	-	-	382,909	248,302	
Transportation	991,522	1,274,664	-	-	991,522	1,274,664	
Community environment	610,234	758,981	-	-	610,234	758,981	
Leisure time activity	135,610	87,025	-	-	135,610	87,025	
Other	14,080	12,652	-	-	14,080	12,652	
Interest and fiscal charges	16,193	21,328	-	-	16,193	21,328	
Water	-	-	2,866,721	3,033,459	2,866,721	3,033,459	
Sewer	-	-	3,068,559	2,188,991	3,068,559	2,188,991	
Total expenses	<u>8,633,228</u>	<u>8,941,544</u>	<u>5,935,280</u>	<u>5,222,450</u>	<u>14,568,508</u>	<u>14,163,994</u>	
Increase (decrease) in net assets before transfers	46,974	(124,494)	(377,449)	1,312,784	(330,475)	1,188,290	
Transfers	<u>(1,302)</u>	<u>(460,989)</u>	<u>1,302</u>	<u>460,989</u>	<u>-</u>	<u>-</u>	
Change in net assets	45,672	(585,483)	(376,147)	1,773,773	(330,475)	1,188,290	
Net assets at beginning of year	<u>14,097,914</u>	<u>14,683,397</u>	<u>29,190,978</u>	<u>27,417,205</u>	<u>43,288,892</u>	<u>42,100,602</u>	
Net assets at end of year	<u>\$ 14,143,586</u>	<u>\$ 14,097,914</u>	<u>\$ 28,814,831</u>	<u>\$ 29,190,978</u>	<u>\$ 42,958,417</u>	<u>\$ 43,288,892</u>	

Governmental Activities

CITY OF FOSTORIA, OHIO

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

Governmental activities net assets increased \$45,672 in 2011.

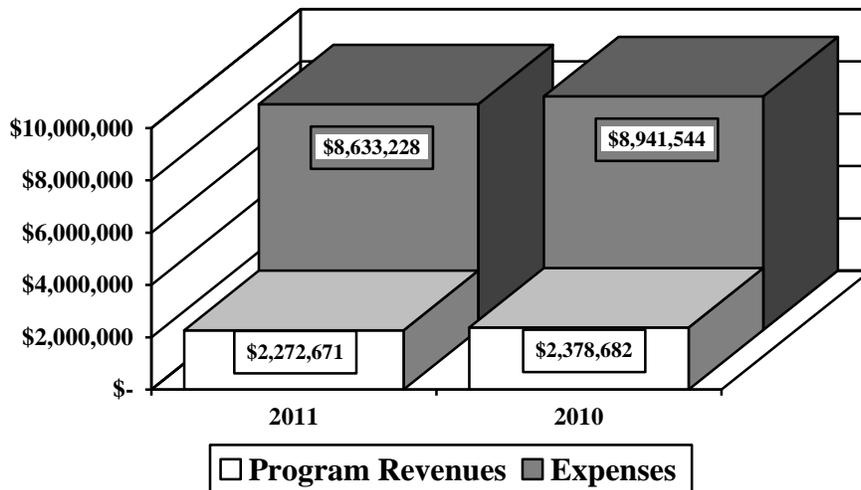
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$4,965,731 of the total expenses of the City. These expenses were partially funded by \$210,130 in direct charges to users of the services and \$455,107 in operating grants and contributions. Transportation expenses totaled \$991,522. Transportation expenses were partially funded by \$14,813 in direct charges to users of the services, \$687,101 in operating grants and contributions and \$7,459 in capital grants and contributions.

The state and federal government contributed to the City a total of \$1,646,445 in operating grants and contributions and \$7,459 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$687,101 subsidized transportation programs, \$372,946 subsidized community environment programs and \$455,107 subsidized security of persons and property activities.

General revenues totaled \$6,407,531, and amounted to 73.82% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$5,304,142. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue, making up \$474,660.

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



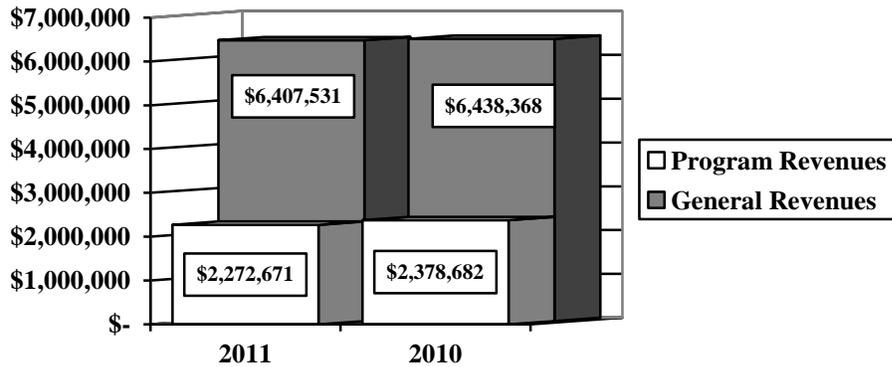
CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

	Governmental Activities			
	Total Cost of	Net Cost of	Restated	Restated
	Services	Services	Total Cost of	Net Cost of
	<u>2011</u>	<u>2011</u>	<u>Services</u>	<u>Services</u>
			<u>2010</u>	<u>2010</u>
Program Expenses:				
General government	\$ 1,516,949	\$ 1,246,201	\$ 1,734,259	\$ 1,489,320
Security of persons and property	4,965,731	4,300,494	4,804,333	4,440,891
Public health and welfare	382,909	203,303	248,302	193,289
Transportation	991,522	282,149	1,274,664	176,908
Community environment	610,234	206,490	758,981	199,239
Leisure time activity	135,610	92,253	87,025	35,116
Other	14,080	13,474	12,652	6,771
Interest and fiscal charges	<u>16,193</u>	<u>16,193</u>	<u>21,328</u>	<u>21,328</u>
Total	<u>\$ 8,633,228</u>	<u>\$ 6,360,557</u>	<u>\$ 8,941,544</u>	<u>\$ 6,562,862</u>

The dependence upon general revenues for governmental activities is apparent, with 73.68% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



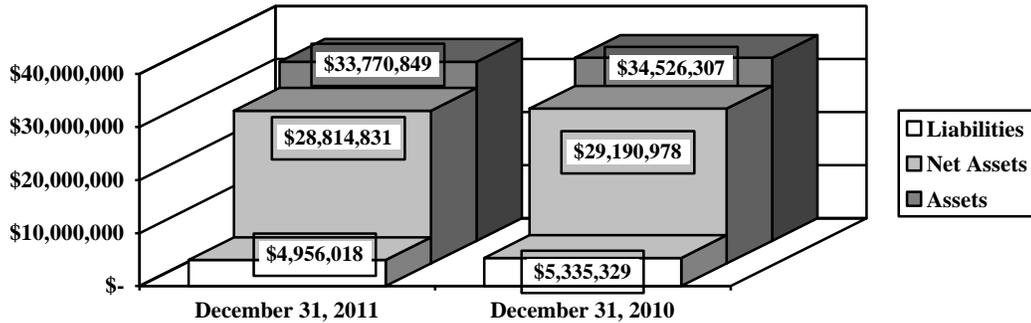
CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$5,508,572 general revenues of \$49,259 and expenses of \$5,935,280 for 2011. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$4,694,920 which is \$90,552 more than last year's total of \$4,604,368. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 for all major and nonmajor governmental funds. The fund balances at December 31, 2010 have been restated as described in Note 3.C.

	<u>Fund Balances</u> <u>12/31/11</u>	<u>Restated</u> <u>Fund Balances</u> <u>12/31/10</u>	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 669,705	\$ 777,887	\$ (108,182)
Fostoria Revolving Loan	2,117,262	1,914,406	202,856
Other nonmajor governmental funds	<u>1,907,953</u>	<u>1,912,075</u>	<u>(4,122)</u>
Total	<u>\$ 4,694,920</u>	<u>\$ 4,604,368</u>	<u>\$ 90,552</u>

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

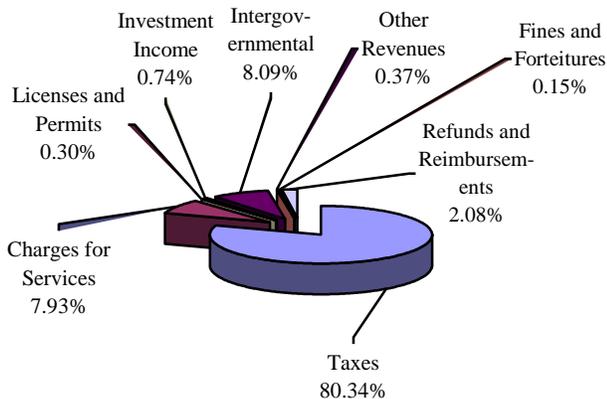
General Fund

The City's general fund balance decreased \$108,182, primarily due to a decrease in tax revenues. The table that follows assists in illustrating the revenues of the general fund.

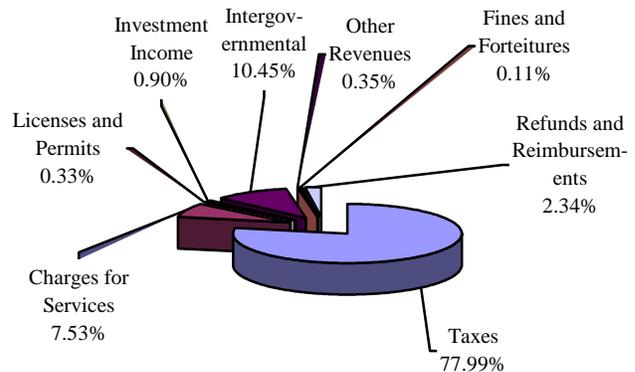
	<u>2011</u>	<u>2010</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
Revenues			
Taxes	\$ 5,113,111	\$ 5,244,293	(2.50) %
Charges for services	504,604	506,754	(0.42) %
Licenses and permits	19,274	22,435	(14.09) %
Investment income	47,282	60,212	(21.47) %
Fines and forfeitures	9,821	7,694	27.64 %
Intergovernmental	515,254	702,750	(26.68) %
Refunds and reimbursements	132,648	157,534	(15.80) %
Other	<u>23,410</u>	<u>28,125</u>	(16.76) %
Total	<u>\$ 6,365,404</u>	<u>\$ 6,729,797</u>	(5.41) %

Tax revenue represents 80.33% of all general fund revenue. Tax revenue decreased by 2.50% over prior year. Investment income decreased 21.47% due to a decrease in the amount held by the City in interest-bearing investment accounts and interest rates. Licenses and permits decreased 14.09%. All other revenue remained comparable to 2010.

Revenues – 2011



Revenues – 2010



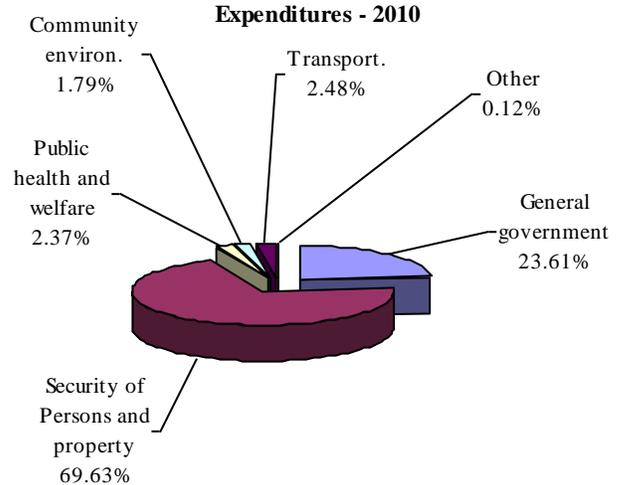
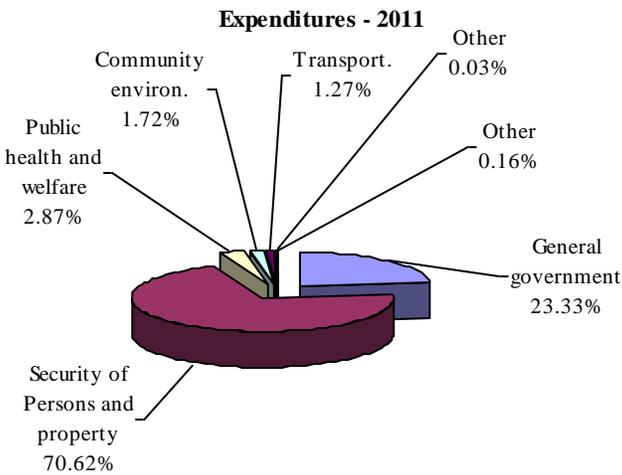
CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

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

	2011	Restated 2010	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,385,052	\$ 1,529,542	(9.45) %
Security of persons and property	4,193,076	4,510,462	(7.04) %
Public health and welfare	170,310	153,616	10.87 %
Transportation	75,365	160,898	(53.16) %
Community environment	101,898	115,836	(12.03) %
Leisure time activity	1,925	-	100.00 %
Other	9,544	7,787	22.56 %
Total	\$ 5,937,170	\$ 6,478,141	(8.35) %

The community environment expenditure line item decreased 12.03%, which is primarily attributed to contract expenses in the zoning department. All expenditures remained comparable to 2010.



Budgeting Highlights

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

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)

In the general fund, the actual revenues and other financing sources were \$46,998 less than in the final budget and actual expenditures and other financing uses were \$197,391 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Final budgeted revenues and other financing sources were \$445,000 more than the original revenues and other financing sources. Budgeted expenditures and other financing uses increased \$261,487 from the original to the final budget.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the City had \$41,078,095 (net of accumulated depreciation) invested in land, land improvements, buildings, machinery and equipment, vehicles and infrastructure. Of this total, \$9,822,845 was reported in governmental activities and \$31,255,250 was reported in business-type activities. The following table shows December 31, 2011 balances compared to December 31, 2010.

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

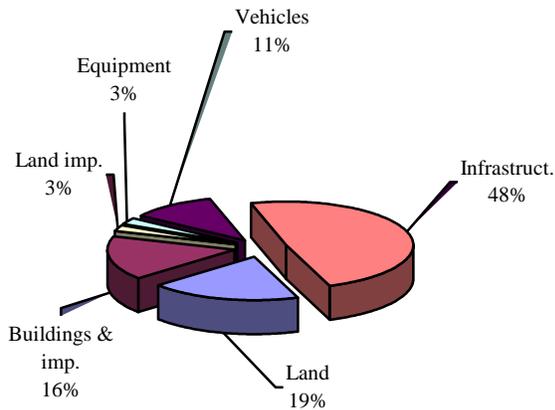
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 1,890,656	\$ 1,890,656	\$ 8,429,538	\$ 8,429,538	\$ 10,320,194	\$ 10,320,194
Land improvements	222,960	139,639	-	-	222,960	139,639
Buildings	1,588,603	1,631,876	8,208,719	6,517,377	9,797,322	8,149,253
Machinery and equipment	243,367	294,275	425,480	386,508	668,847	680,783
Vehicles	1,083,322	1,167,877	192,011	282,122	1,275,333	1,449,999
Infrastructure	4,793,937	4,020,152	13,999,502	13,773,633	18,793,439	17,793,785
Construction in progress	-	699,120	-	2,565,614	-	3,264,734
Totals	<u>\$ 9,822,845</u>	<u>\$ 9,843,595</u>	<u>\$ 31,255,250</u>	<u>\$ 31,954,792</u>	<u>\$ 41,078,095</u>	<u>\$ 41,798,387</u>

CITY OF FOSTORIA, OHIO

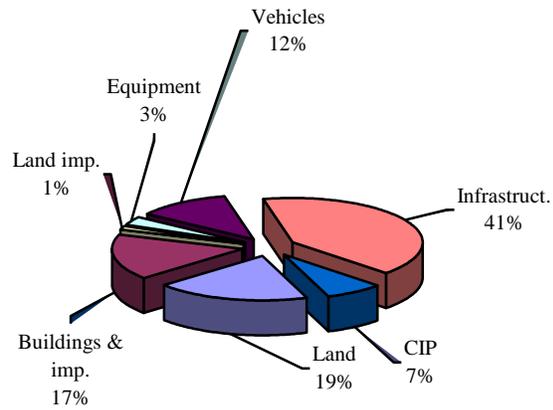
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

The following graphs show the breakdown of governmental capital assets by category for 2011 and 2010.

**Capital Assets - Governmental Activities
2011**



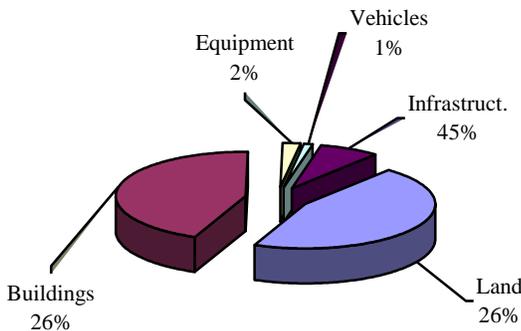
**Capital Assets - Governmental Activities
2010**



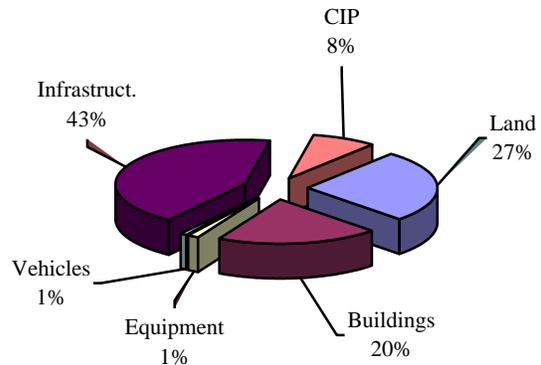
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost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

The following graphs show the breakdown of business-type capital assets by category for 2011 and 2010.

Capital Assets - Business-Type Activities 2011



Capital Assets - Business-Type Activities 2010



CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

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

Debt Administration

The City had the following long-term debt obligations outstanding at December 31, 2011 and 2010:

Governmental Activities

	<u>2011</u>	<u>2010</u>
OPWC loans	\$ 152,444	\$ 176,997
Capital lease payable	52,093	126,471
Special assessment bonds	<u>180,370</u>	<u>200,618</u>
Total long-term obligations	<u>\$ 384,907</u>	<u>\$ 504,086</u>

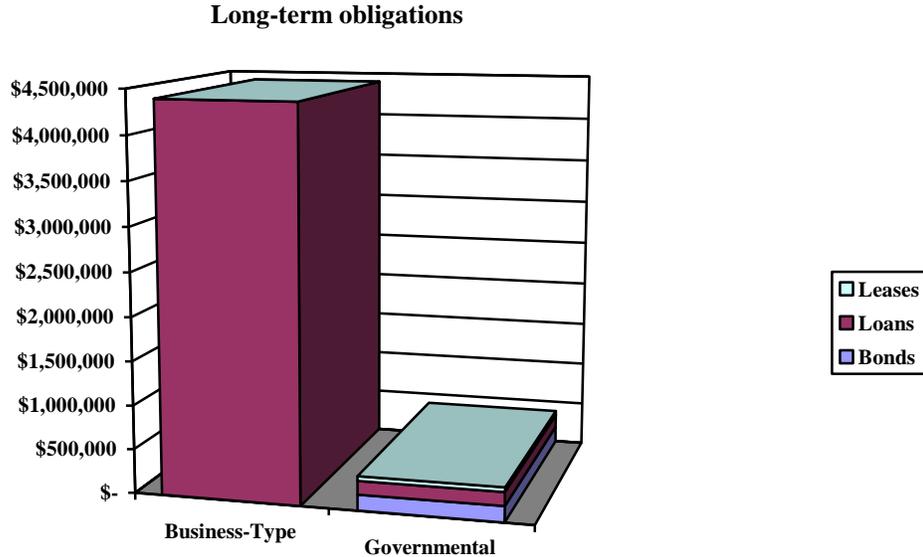
Business-Type Activities

	<u>2011</u>	<u>2010</u>
OPWC loans	\$ 210,126	\$ 169,666
OWDA loans	<u>4,188,266</u>	<u>4,317,623</u>
Total long-term obligations	<u>\$ 4,398,392</u>	<u>\$ 4,487,289</u>

CITY OF FOSTORIA, OHIO

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

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



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

Economic Factors and Next Year’s Budgets and Rates

The City’s current population as of the 2010 census is 13,441.

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 2011 budget.

These economic factors were considered in preparing the City’s budget for fiscal year 2011. Budgeted revenues and other financing sources in the general fund for fiscal year 2011 budget are \$6,444,785. With the continuation of conservative budgeting practices, the City’s should be able to maintain its current financial position.

Contacting the City’s Financial Management

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

CITY OF FOSTORIA, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,549,542	\$ 1,536,312	\$ 4,085,854
Cash and cash equivalents with fiscal agent	63,798	-	63,798
Receivables:			
Income taxes	1,119,105	-	1,119,105
Real and other taxes	956,405	-	956,405
Accounts	46,698	923,957	970,655
Due from other governments.	581,640	-	581,640
Special assessments	223,203	-	223,203
Loans	1,608,141	-	1,608,141
Materials and supplies inventory	175,288	55,330	230,618
Capital assets:			
Land	1,890,656	8,429,538	10,320,194
Depreciable capital assets, net	7,932,189	22,825,712	30,757,901
Total capital assets, net.	<u>9,822,845</u>	<u>31,255,250</u>	<u>41,078,095</u>
 Total assets	 <u>17,146,665</u>	 <u>33,770,849</u>	 <u>50,917,514</u>
Liabilities:			
Accounts payable.	137,013	83,211	220,224
Accrued wages and benefits	73,010	41,492	114,502
Due to other governments	221,273	103,972	325,245
Pension obligation payable.	163,357	31,295	194,652
Unearned revenue	789,856	-	789,856
Accrued interest payable	920	44,858	45,778
Long-term liabilities:			
Due within one year	332,007	635,035	967,042
Due in more than one year.	1,285,643	4,016,155	5,301,798
 Total liabilities	 <u>3,003,079</u>	 <u>4,956,018</u>	 <u>7,959,097</u>
Net assets:			
Invested in capital assets, net of related debt.	9,437,938	26,856,858	36,294,796
Restricted for:			
Capital projects	279,267	-	279,267
Debt service	22,886	-	22,886
Security of persons and property	244,837	-	244,837
Transportation projects	867,673	-	867,673
Revolving loans	2,270,617	-	2,270,617
Public health and welfare.	106,976	-	106,976
Community environment programs.	150,136	-	150,136
Perpetual care:			
Nonexpendable.	19,691	-	19,691
Other purposes.	69,605	-	69,605
Unrestricted.	673,960	1,957,973	2,631,933
 Total net assets	 <u>\$ 14,143,586</u>	 <u>\$ 28,814,831</u>	 <u>\$ 42,958,417</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,516,949	\$ 270,748	\$ -	\$ -
Security of persons and property	4,965,731	210,130	455,107	-
Public health and welfare	382,909	49,556	130,050	-
Transportation	991,522	14,813	687,101	7,459
Community environment	610,234	30,798	372,946	-
Leisure time activity	135,610	42,722	635	-
Other	14,080	-	606	-
Interest and fiscal charges	16,193	-	-	-
Total governmental activities	<u>8,633,228</u>	<u>618,767</u>	<u>1,646,445</u>	<u>7,459</u>
Business-type activities:				
Water	2,866,721	2,751,916	-	-
Sewer	3,068,559	2,756,656	-	-
Total business-type activities	<u>5,935,280</u>	<u>5,508,572</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 14,568,508</u>	<u>\$ 6,127,339</u>	<u>\$ 1,646,445</u>	<u>\$ 7,459</u>

General revenues:

Property taxes levied for:	
General purposes	
Police and fire pension	
Income taxes levied for:	
General purposes	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Refunds and reimbursements	
Miscellaneous	
 Total general revenues	
 Transfers	
 Change in net assets	
 Net assets at beginning of year	
 Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,246,201)	\$ -	\$ (1,246,201)
(4,300,494)	-	(4,300,494)
(203,303)	-	(203,303)
(282,149)	-	(282,149)
(206,490)	-	(206,490)
(92,253)	-	(92,253)
(13,474)	-	(13,474)
(16,193)	-	(16,193)
<u>(6,360,557)</u>	<u>-</u>	<u>(6,360,557)</u>
-	(114,805)	(114,805)
-	(311,903)	(311,903)
<u>-</u>	<u>(426,708)</u>	<u>(426,708)</u>
<u>(6,360,557)</u>	<u>(426,708)</u>	<u>(6,787,265)</u>
769,191	-	769,191
138,131	-	138,131
4,396,820	-	4,396,820
474,660	-	474,660
47,642	-	47,642
154,464	-	154,464
426,623	49,259	475,882
<u>6,407,531</u>	<u>49,259</u>	<u>6,456,790</u>
<u>(1,302)</u>	<u>1,302</u>	<u>-</u>
45,672	(376,147)	(330,475)
<u>14,097,914</u>	<u>29,190,978</u>	<u>43,288,892</u>
<u>\$ 14,143,586</u>	<u>\$ 28,814,831</u>	<u>\$ 42,958,417</u>

CITY OF FOSTORIA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	<u>General</u>	<u>Fostoria Revolving Loan</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 587,231	\$ 509,271	\$ 1,453,040	\$ 2,549,542
Cash and cash equivalents with fiscal agent.	-	-	63,798	63,798
Receivables:				
Income taxes	1,119,105	-	-	1,119,105
Real and other taxes	836,052	-	120,353	956,405
Accounts	46,698	-	-	46,698
Due from other governments.	189,855	-	391,785	581,640
Special assessments.	-	-	223,203	223,203
Loans.	-	1,608,141	-	1,608,141
Due from other funds.	-	-	132,499	132,499
Interfund loan receivable.	17,450	-	-	17,450
Materials and supplies inventory.	-	-	175,288	175,288
Total assets	<u>\$ 2,796,391</u>	<u>\$ 2,117,412</u>	<u>\$ 2,559,966</u>	<u>\$ 7,473,769</u>
Liabilities:				
Accounts payable.	\$ 104,562	\$ 150	\$ 32,301	\$ 137,013
Accrued wages and benefits	69,828	-	3,182	73,010
Interfund loan payable	-	-	17,450	17,450
Due to other governments	208,674	-	12,599	221,273
Pension obligation payable	161,763	-	1,594	163,357
Due to other funds	132,499	-	-	132,499
Unearned revenue	690,352	-	99,504	789,856
Deferred revenue	759,008	-	485,383	1,244,391
Total liabilities	<u>2,126,686</u>	<u>150</u>	<u>652,013</u>	<u>2,778,849</u>
Fund balances:				
Nonspendable	-	-	194,979	194,979
Restricted.	-	2,117,262	1,353,010	3,470,272
Committed	-	-	375,692	375,692
Assigned	484,934	-	-	484,934
Unassigned (deficit)	184,771	-	(15,728)	169,043
Total fund balances.	<u>669,705</u>	<u>2,117,262</u>	<u>1,907,953</u>	<u>4,694,920</u>
Total liabilities and fund balances	<u>\$ 2,796,391</u>	<u>\$ 2,117,412</u>	<u>\$ 2,559,966</u>	<u>\$ 7,473,769</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Total governmental fund balances		\$ 4,694,920
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,822,845
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 165,500	
Income taxes	499,145	
Special assessments	223,203	
Intergovernmental	<u>356,543</u>	
Total		1,244,391
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.		(920)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Special assessment bonds payable	180,370	
Capital lease payable	52,093	
Compensated absences payable	1,232,743	
OPWC loans payable	<u>152,444</u>	
Total		<u>(1,617,650)</u>
Net assets of governmental activities		<u><u>\$ 14,143,586</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, 2011

	<u>General</u>	<u>Fostoria Revolving Loan</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Municipal income taxes	\$ 4,457,317	\$ -	\$ -	\$ 4,457,317
Property and other taxes	655,794	-	122,309	778,103
Charges for services	504,604	-	40,322	544,926
Licenses and permits	19,274	-	-	19,274
Fines and forfeitures	9,821	-	19,914	29,735
Intergovernmental	515,254	-	1,541,101	2,056,355
Special assessments	-	-	54,319	54,319
Investment income	47,282	39,333	804	87,419
Rental income	-	-	2,400	2,400
Refunds and reimbursements	132,648	-	94,429	227,077
Contributions and donations	7,095	-	133,866	140,961
Other	16,315	194,217	145,873	356,405
Total revenues	<u>6,365,404</u>	<u>233,550</u>	<u>2,155,337</u>	<u>8,754,291</u>
Expenditures:				
Current:				
General government	1,385,052	-	107,480	1,492,532
Security of persons and property	4,193,076	-	451,473	4,644,549
Public health and welfare	170,310	-	175,037	345,347
Transportation	75,365	-	646,845	722,210
Community environment	101,898	30,694	454,786	587,378
Leisure time activity	1,925	-	84,233	86,158
Other	9,544	-	4,536	14,080
Capital outlay	-	-	643,624	643,624
Debt service:				
Principal retirement	-	-	119,179	119,179
Interest and fiscal charges	-	-	17,501	17,501
Total expenditures	<u>5,937,170</u>	<u>30,694</u>	<u>2,704,694</u>	<u>8,672,558</u>
Excess (deficiency) of revenues over (under) expenditures	<u>428,234</u>	<u>202,856</u>	<u>(549,357)</u>	<u>81,733</u>
Other financing sources (uses):				
Sale of capital assets	3,584	-	5,235	8,819
Transfers in	-	-	540,000	540,000
Transfers (out)	<u>(540,000)</u>	<u>-</u>	<u>-</u>	<u>(540,000)</u>
Total other financing sources (uses)	<u>(536,416)</u>	<u>-</u>	<u>545,235</u>	<u>8,819</u>
Net change in fund balances	(108,182)	202,856	(4,122)	90,552
Fund balances at beginning of year	<u>777,887</u>	<u>1,914,406</u>	<u>1,912,075</u>	<u>4,604,368</u>
Fund balances at end of year	<u>\$ 669,705</u>	<u>\$ 2,117,262</u>	<u>\$ 1,907,953</u>	<u>\$ 4,694,920</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, 2011

Net change in fund balances - total governmental funds		\$ 90,552
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures.		
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay	\$ 1,276,113	
Depreciation expense	<u>(576,154)</u>	699,959
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.		
		(720,709)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	129,219	
Income taxes	(60,497)	
Special assessments	(31,887)	
Intergovernmental	<u>(110,924)</u>	
Total		(74,089)
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 assets.		
		119,179
In the statement of activities, interest is accrued on outstanding bonds and leases, whereas in governmental funds, an interest expenditure is reported when due.		
		1,308
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(70,528)</u>
Change in net assets of governmental activities		<u>\$ 45,672</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 4,195,646	\$ 4,506,836	\$ 4,473,969	\$ (32,867)
Property and other taxes	615,246	660,878	656,059	(4,819)
Charges for services	470,176	505,049	501,366	(3,683)
Licenses and permits.	18,603	19,983	19,837	(146)
Fines and forfeitures.	9,210	9,893	9,821	(72)
Intergovernmental.	496,872	533,724	529,832	(3,892)
Investment income.	44,321	47,608	47,261	(347)
Refunds and reimbursements.	124,396	133,622	132,648	(974)
Contributions and donations.	6,654	7,147	7,095	(52)
Other	15,300	16,435	16,315	(120)
Total revenues	<u>5,996,424</u>	<u>6,441,175</u>	<u>6,394,203</u>	<u>(46,972)</u>
Expenditures:				
Current:				
General government:				
Legislative and executive.	1,053,179	1,083,606	875,492	208,114
Judicial	509,662	504,346	492,182	12,164
Security of persons and property	3,927,090	4,122,666	4,145,889	(23,223)
Public health and welfare.	151,268	175,054	171,268	3,786
Transportation	54,544	62,092	62,908	(816)
Community environment	35,967	45,433	48,067	(2,634)
Total expenditures	<u>5,731,710</u>	<u>5,993,197</u>	<u>5,795,806</u>	<u>197,391</u>
Excess of revenues over expenditures	<u>264,714</u>	<u>447,978</u>	<u>598,397</u>	<u>150,419</u>
Other financing sources (uses):				
Sale of capital assets.	3,361	3,610	3,584	(26)
Transfers (out).	<u>(600,000)</u>	<u>(600,000)</u>	<u>(600,000)</u>	<u>-</u>
Total other financing (uses)	<u>(596,639)</u>	<u>(596,390)</u>	<u>(596,416)</u>	<u>(26)</u>
Net change in fund balance	(331,925)	(148,412)	1,981	150,393
Fund balance (deficit) at beginning of year (restated)	(185,940)	(185,940)	(185,940)	-
Prior year encumbrances appropriated	30,687	30,687	30,687	-
Fund balance (deficit) at end of year.	<u>\$ (487,178)</u>	<u>\$ (303,665)</u>	<u>\$ (153,272)</u>	<u>\$ 150,393</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 FOSTORIA REVOLVING LOAN FUND
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment income	\$ 49	\$ 49	\$ 174	\$ 125
Other	145,451	145,451	516,301	370,850
Total revenues	<u>145,500</u>	<u>145,500</u>	<u>516,475</u>	<u>370,975</u>
Expenditures:				
Current:				
Community environment	30,494	306,744	305,694	1,050
Total expenditures	<u>30,494</u>	<u>306,744</u>	<u>305,694</u>	<u>1,050</u>
Net change in fund balances	115,006	(161,244)	210,781	372,025
Fund balances at beginning of year	<u>298,340</u>	<u>298,340</u>	<u>298,340</u>	<u>-</u>
Fund balance at end of year	<u>\$ 413,346</u>	<u>\$ 137,096</u>	<u>\$ 509,121</u>	<u>\$ 372,025</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents. . . .	\$ 124,474	\$ 1,411,838	\$ 1,536,312
Receivables (net of allowance for uncollectibles):			
Accounts.	488,346	435,611	923,957
Materials and supplies inventory	39,421	15,909	55,330
Total current assets.	<u>652,241</u>	<u>1,863,358</u>	<u>2,515,599</u>
Noncurrent assets:			
Capital assets:			
Land.	8,121,300	308,238	8,429,538
Depreciable capital assets, net.	10,163,565	12,662,147	22,825,712
Total capital assets, net	<u>18,284,865</u>	<u>12,970,385</u>	<u>31,255,250</u>
Total assets.	<u>18,937,106</u>	<u>14,833,743</u>	<u>33,770,849</u>
Liabilities:			
Current liabilities:			
Accounts payable	58,674	24,537	83,211
Accrued wages and benefits.	19,775	21,717	41,492
Due to other governments.	53,241	50,731	103,972
Pension obligation payable	15,912	15,383	31,295
Accrued interest payable.	14,355	30,503	44,858
Current portion of compensated absences	120,372	72,021	192,393
Current portion of OWDA loans.	56,536	360,903	417,439
Current portion of OPWC loans	13,105	12,098	25,203
Total current liabilities.	<u>351,970</u>	<u>587,893</u>	<u>939,863</u>
Long-term liabilities:			
OWDA loans	1,527,333	2,243,494	3,770,827
OPWC loans	77,136	107,787	184,923
Compensated absences	37,793	22,612	60,405
Total long-term liabilities	<u>1,642,262</u>	<u>2,373,893</u>	<u>4,016,155</u>
Total liabilities.	<u>1,994,232</u>	<u>2,961,786</u>	<u>4,956,018</u>
Net assets:			
Invested in capital assets, net of related debt	16,610,755	10,246,103	26,856,858
Unrestricted	<u>332,119</u>	<u>1,625,854</u>	<u>1,957,973</u>
Total net assets	<u>\$ 16,942,874</u>	<u>\$ 11,871,957</u>	<u>\$ 28,814,831</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 2,751,916	\$ 2,756,656	\$ 5,508,572
Other	47,285	1,974	49,259
Total operating revenues	<u>2,799,201</u>	<u>2,758,630</u>	<u>5,557,831</u>
Operating expenses:			
Personal services	1,471,260	1,041,315	2,512,575
Contract services	72,569	372,204	444,773
Materials and supplies.	632,028	167,806	799,834
Utilities	204,037	432,985	637,022
Depreciation.	361,940	363,842	725,782
Other	103,329	195	103,524
Total operating expenses.	<u>2,845,163</u>	<u>2,378,347</u>	<u>5,223,510</u>
Operating income (loss)	<u>(45,962)</u>	<u>380,283</u>	<u>334,321</u>
Nonoperating revenues (expenses):			
Interest expense and fiscal charges	(29,347)	(115,068)	(144,415)
Gain (loss) on sale of capital assets	7,789	(575,144)	(567,355)
Total nonoperating (expenses)	<u>(21,558)</u>	<u>(690,212)</u>	<u>(711,770)</u>
(Loss) before transfers in	(67,520)	(309,929)	(377,449)
Transfer in	-	1,302	1,302
Change in net assets	(67,520)	(308,627)	(376,147)
Net assets at beginning of year.	<u>17,010,394</u>	<u>12,180,584</u>	<u>29,190,978</u>
Net assets at end of year	<u>\$ 16,942,874</u>	<u>\$ 11,871,957</u>	<u>\$ 28,814,831</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers.	\$ 2,753,929	\$ 2,709,011	\$ 5,462,940
Cash received from other operations	47,285	1,974	49,259
Cash payments for personal services.	(1,501,379)	(1,093,512)	(2,594,891)
Cash payments for contract services	(71,184)	(380,876)	(452,060)
Cash payments for materials and supplies.	(622,590)	(162,513)	(785,103)
Cash payments for utilities	(206,310)	(434,282)	(640,592)
Cash payments for other expenses	(103,329)	(195)	(103,524)
Net cash provided by operating activities.	<u>296,422</u>	<u>639,607</u>	<u>936,029</u>
Cash flows from capital and related financing activities:			
Gain on sale of capital assets	7,789	1,940	9,729
Acquisition of capital assets	(435,272)	(369,480)	(804,752)
Loan issuance.	321,597	91,931	413,528
Principal retirement on bonds and loans.	(89,071)	(413,354)	(502,425)
Interest paid on bonds and loans.	(30,605)	(122,934)	(153,539)
Net cash used in capital and related financing activities	<u>(225,562)</u>	<u>(811,897)</u>	<u>(1,037,459)</u>
Net increase (decrease) in cash and cash equivalents. . .	70,860	(172,290)	(101,430)
Cash and cash equivalents at beginning of year.	<u>53,614</u>	<u>1,584,128</u>	<u>1,637,742</u>
Cash and cash equivalents at end of year	<u>\$ 124,474</u>	<u>\$ 1,411,838</u>	<u>\$ 1,536,312</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (45,962)	\$ 380,283	\$ 334,321
Adjustments:			
Depreciation.	361,940	363,842	725,782
Changes in assets and liabilities:			
Decrease/(increase) materials and supplies inventory. .	2,013	(47,645)	(45,632)
(Increase)/decrease in accounts receivable.	(109)	227	118
(Decrease) in accounts payable	(31,816)	(21,465)	(53,281)
Increase in accrued wages and benefits	3,004	9,689	12,693
Increase in pension obligation payable.	1,967	3,258	5,225
Increase/(decrease) in due to other governments.	7,839	(27,852)	(20,013)
Decrease in compensated absences payable.	(2,454)	(20,730)	(23,184)
Net cash provided by operating activities.	<u>\$ 296,422</u>	<u>\$ 639,607</u>	<u>\$ 936,029</u>

During 2011, the sewer fund received transfers of \$1,302 from governmental funds.
 At December 31, 2011, the water fund purchased \$13,738 in capital assets on account.
 At December 31, 2011, the sewer fund purchased \$7,907 in capital assets on account.
 At December 31, 2010, the water fund purchased \$20,913 in capital assets on account.
 At December 31, 2010, the sewer fund purchased \$203,462 in capital assets on account.

CITY OF FOSTORIA, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2011

	<u>Private-Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 12,115	\$ 21,185
Cash in segregated accounts	<u>-</u>	<u>72,317</u>
Total assets	<u>\$ 12,115</u>	<u>\$ 93,502</u>
Liabilities:		
Due to other governments.	-	\$ 72,317
Undistributed monies.	<u>-</u>	<u>21,185</u>
Total liabilities.	<u>-</u>	<u>\$ 93,502</u>
Net assets:		
Held in trust for other purposes	<u>\$ 12,115</u>	
Total net assets	<u>\$ 12,115</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Private-Purpose Trust
	<u> </u>
Additions:	
Interest.	<u>\$ 39</u>
Total additions	<u> 39</u>
Reductions:	
Other.	<u> 755</u>
Total deductions.	<u> 755</u>
Change in net assets	(716)
Net assets at beginning of year.	<u> 12,831</u>
Net assets at end of year	<u><u> \$ 12,115</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

JOINTLY GOVERNED ORGANIZATION

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

RELATED ORGANIZATION

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

B. Basis of Presentation - Fund Accounting

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

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

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

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

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

C. Fund Accounting

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

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

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

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

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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.

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

D. Measurement Focus and Basis of Accounting

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

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and agency funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance 2012 operations, and other revenues received in advance of the year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at December 31, 2011 are recorded as deferred revenue.

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

F. Budgetary Data

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

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

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 2011.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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

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

G. Cash and Cash Equivalents

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

During 2011, 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, 2011.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2011 amounted to \$47,282, which included \$37,637 assigned from other funds of the City.

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

The Seneca County Auditor maintains undistributed permissive tax received. The balance of this account at December 31, 2011 was \$63,798. 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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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 net current assets.

I. Capital Assets

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

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

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, 2011

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011**

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 Assets

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

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

S. Bond Discounts, Premiums and Issuance Costs

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the City.

B. Deficit Fund Balances

The following funds had deficit fund balances at December 31, 2011:

Nonmajor governmental funds:

Park and recreation	\$ 15,721
Community development	7

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

C. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the City's governmental fund balances as previously reported:

	<u>General</u>	<u>Fostoria Revolving Loan</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 182,494	\$ 1,914,406	\$ 2,507,468	\$ 4,604,368
Fund reclassifications:				
Loop Road project	485,493	-	(485,493)	-
Community development	1,101	-	(1,101)	-
Charter government	8,799	-	(8,799)	-
Job creation grant program	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>	<u>-</u>
Total fund reclassifications	<u>595,393</u>	<u>-</u>	<u>(595,393)</u>	<u>-</u>
Restated fund balance at January 1, 2011	<u>\$ 777,887</u>	<u>\$ 1,914,406</u>	<u>\$ 1,912,075</u>	<u>\$ 4,604,368</u>

The fund reclassifications did not have an effect on net assets as previously reported.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

D. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The City has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at December 31, 2011 is as follows:

Budgetary Basis	<u>General Fund</u>
Deficit at December 31, 2010	\$ (172,230)
Funds budgeted elsewhere	<u>(13,710)</u>
Restated deficit at January 1, 2011	<u>\$ (185,940)</u>

E. Compliance

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

General Fund	\$132,499
Special Revenue: Park and Recreation Fund	15,721

The General Fund is liable for any negative cash balances at December 31, 2011. The negative cash balance in the General Fund will receive reimbursements from grants from the Safer Program and COPS Hiring Recovery Program.

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

Interim monies may be deposited or invested in the following:

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

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

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

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash in Segregated Accounts

At year end, \$72,317 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, 2011, \$63,798 was on deposit with the City’s fiscal agent for undistributed permissive tax received. This amount is excluded from the internal cash pool reported on the balance sheet as “equity in pooled cash and cash equivalents”.

C. Deposits with Financial Institutions

At December 31, 2011, the carrying amount of all City deposits, including cash with fiscal agent and cash in segregated accounts, was \$3,673,418. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2011, \$3,281,924 of the City’s bank balance of \$3,854,241 was exposed to custodial risk as discussed below, while \$572,317 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, 2011, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity 6 months or less
STAR Ohio	\$ 581,851	\$ 581,851

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 581,851	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,673,418
Investments	<u>581,851</u>
Total	<u>\$ 4,255,269</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,613,340
Business-type activities	1,536,312
Private-purpose funds	12,115
Agency funds	<u>93,502</u>
Total	<u>\$ 4,255,269</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2011, consisted of the following, as reported in the fund financial statements:

	<u>Transfers from</u>
<u>Transfers to</u>	<u>General</u>
Nonmajor governmental funds	\$ 540,000

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

- B.** Interfund loans receivable/payable consisted of the following at December 31, 2010, as reported on the fund financial statements:

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

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

- C.** Due from/to other funds consisted of the following at December 31, 2011, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Nonmajor governmental fund	General	\$ 132,499

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

NOTE 6 - PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 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, 2011**

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, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate applied to real property and tangible personal property for the year ended December 31, 2011 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	\$ 109,564,090
Commercial/industrial/mineral	48,741,120

Public utility

Real	241,350
Personal	<u>7,292,060</u>

Total assessed value	<u>\$ 165,838,620</u>
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NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 2 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City, and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of for-profit organizations conducting business within the City. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2011 was \$4,457,317 as reported on the fund financial statements.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 8 - RECEIVABLES

Receivables at December 31, 2011, consisted of taxes, accounts (billings for user charged services), accrued interest, loans, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as “due from other governments” on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2011, as well as intended to finance 2011 operations.

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

Governmental activities:

Income taxes	\$	1,119,105
Real and other taxes		956,405
Accounts		46,698
Due from other governments		581,640
Special assessments		223,203
Loans		1,608,141

Business-type activities:

Accounts		923,957
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Receivables have been disaggregated on the face of the BFS. The only receivables not expected to be collected within the subsequent year are the special assessments and loans, which are collected over the life of the assessments and the loan agreements.

NOTE 9 - LOANS RECEIVABLE

The Fostoria City Council created the Revolving Loan Committee and granted them the authority to act on behalf of the City in making loans from the City’s Revolving Loan Fund to qualified applicants within the revolving loan fund geographic area. At the close of 2011, there were loans outstanding to businesses with a total principal balance due of \$1,608,141.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 - CAPITAL ASSETS

<u>Governmental activities:</u>	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,890,656	\$ -	\$ -	\$ 1,890,656
Construction in progress	<u>699,120</u>	<u>6,942</u>	<u>(706,062)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,589,776</u>	<u>6,942</u>	<u>(706,062)</u>	<u>1,890,656</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	508,404	-	-	508,404
Buildings	7,273,001	154,476	-	7,427,477
Machinery and equipment	2,090,202	-	(14,647)	2,075,555
Vehicles	2,684,682	56,702	(63,826)	2,677,558
Infrastructure	<u>8,981,364</u>	<u>1,057,993</u>	<u>-</u>	<u>10,039,357</u>
Total capital assets, being depreciated	<u>21,537,653</u>	<u>1,269,171</u>	<u>(78,473)</u>	<u>22,728,351</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(368,765)	(8,455)	-	(377,220)
Buildings	(5,641,125)	(105,973)	-	(5,747,098)
Machinery and equipment	(1,795,927)	(36,261)	-	(1,832,188)
Vehicles	(1,516,805)	(141,257)	63,826	(1,594,236)
Infrastructure	<u>(4,961,212)</u>	<u>(284,208)</u>	<u>-</u>	<u>(5,245,420)</u>
Total accumulated depreciation	<u>(14,283,834)</u>	<u>(576,154)</u>	<u>63,826</u>	<u>(14,796,162)</u>
Total capital assets, being depreciated, net	<u>7,253,819</u>	<u>693,017</u>	<u>(14,647)</u>	<u>7,932,189</u>
Government-type activities capital assets, net	<u>\$ 9,843,595</u>	<u>\$ 699,959</u>	<u>\$ (720,709)</u>	<u>\$ 9,822,845</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Business-type activities:</u>	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 8,429,538	\$ -	\$ -	\$ 8,429,538
Construction in progress	<u>2,565,614</u>	<u>399,437</u>	<u>(2,965,051)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>10,995,152</u>	<u>399,437</u>	<u>(2,965,051)</u>	<u>8,429,538</u>
<i>Capital assets, being depreciated:</i>				
Buildings	12,427,140	1,886,373	-	14,313,513
Machinery and equipment	2,319,247	92,360	(27,104)	2,384,503
Vehicles	904,214	-	(15,549)	888,665
Infrastructure	<u>22,295,604</u>	<u>626,466</u>	<u>-</u>	<u>22,922,070</u>
Total capital assets, being depreciated	<u>37,946,205</u>	<u>2,605,199</u>	<u>(42,653)</u>	<u>40,508,751</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(5,909,763)	(195,031)	-	(6,104,794)
Machinery and equipment	(1,932,739)	(53,388)	27,104	(1,959,023)
Vehicles	(622,092)	(90,111)	15,549	(696,654)
Infrastructure	<u>(8,521,971)</u>	<u>(400,597)</u>	<u>-</u>	<u>(8,922,568)</u>
Total accumulated depreciation	<u>(16,986,565)</u>	<u>(739,127)</u>	<u>42,653</u>	<u>(17,683,039)</u>
Total capital assets, being depreciated, net	<u>20,959,640</u>	<u>1,866,072</u>	<u>-</u>	<u>22,825,712</u>
Business-type activities capital assets, net	<u>\$ 31,954,792</u>	<u>\$ 2,265,509</u>	<u>\$ (2,965,051)</u>	<u>\$ 31,255,250</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 6,588
Security of persons and property	164,204
Public health and welfare	25,168
Transportation	331,301
Community environment	2,395
Leisure time activity	<u>46,498</u>
Total depreciation expense - governmental activities	<u>\$ 576,154</u>

Business-type activities:

Water	\$ 361,940
Sewer	<u>363,842</u>
Total depreciation expense - business-type activities	<u>\$ 725,782</u>

Depreciation expense for business-type activities differs from additions to accumulated depreciation during 2011 due to the transfer of assets with a cost of \$14,647, accumulated depreciation of \$13,345 and a net book value of \$1,302 from governmental activities to business-type activities.

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital assets acquired by lease have been capitalized in the governmental activities statement of net assets in the amount of \$453,190. Accumulated depreciation as of December 31, 2011 was \$134,589, leaving a current book value of \$318,601. At inception, capital lease transactions are accounted for as a capital outlay expenditure or capital asset addition and other financing source or non-operating revenue in the appropriate fund, with a corresponding liability is recorded in the governmental activities statement of net assets or enterprise fund, respectively.

Principal and interest payments in 2011 totaled \$74,378 and \$5,776, respectively, in the capital improvements fund, which is a nonmajor governmental fund.

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011:

<u>Year Ending</u> <u>December 31,</u>	<u>Governmental</u> <u>Activities</u>
2012	
Total future minimum lease payments	\$ 54,375
Less: amount representing interest	<u>(2,282)</u>
Present value of future minimum lease payments	<u>\$ 52,093</u>

NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS

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

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

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

Vacation is accumulated based upon length of service as follows:

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)

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 2011, the following changes occurred in the City's governmental long-term obligations:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</u>	<u>Due Within One Year</u>
Governmental activities:							
<u>OWPC loans payable:</u>							
OPWC - Kelly Storm Sewer	05/08/98	0%	\$ 61,030	\$ -	\$ (8,137)	\$ 52,893	\$ 8,137
OPWC - Circle Drive	12/1/00	0%	14,350	-	(2,050)	12,300	2,050
OPWC - CSO#5	12/20/00	0%	4,671	-	(4,671)	-	-
OPWC - Sandusky Sewer Pump	6/9/10	0%	96,946	-	(9,695)	87,251	9,695
Total OPWC loans			<u>176,997</u>	<u>-</u>	<u>(24,553)</u>	<u>152,444</u>	<u>19,882</u>
<u>Special assessment bonds:</u>							
Kelly Addition	07/23/98	5.95%	200,618	-	(20,248)	180,370	21,440
Total special assessment bonds			<u>200,618</u>	<u>-</u>	<u>(20,248)</u>	<u>180,370</u>	<u>21,440</u>
<u>Other long-term obligations:</u>							
Capital lease obligations			126,471	-	(74,378)	52,093	52,093
Compensated absences payable			1,162,215	302,171	(231,643)	1,232,743	238,592
Total other long-term obligations			<u>1,288,686</u>	<u>302,171</u>	<u>(306,021)</u>	<u>1,284,836</u>	<u>290,685</u>
Total governmental activities			<u>\$ 1,666,301</u>	<u>\$ 302,171</u>	<u>\$ (350,822)</u>	<u>\$ 1,617,650</u>	<u>\$ 332,007</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

- B.** During 2011, the following changes occurred in the City's business-type activities long-term obligations.

	<u>Issue</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/11</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Business-type activities:							
<u>OWDA loans payable:</u>							
OWDA loan #3240	10/15/00	4.55%	\$ 670,105	\$ -	\$ (53,992)	\$ 616,113	\$ 56,536
OWDA loan #5426	11/19/09	0.00%	733,796	259,061	(25,101)	967,756	-
OWDA loan #2262	07/01/95	4.56%	1,682,832	-	(344,992)	1,337,840	360,903
OWDA loan #5702	03/16/06	3.20%	<u>1,230,890</u>	<u>91,931</u>	<u>(56,264)</u>	<u>1,266,557</u>	<u>-</u>
Total OWDA loans			<u>4,317,623</u>	<u>350,992</u>	<u>(480,349)</u>	<u>4,188,266</u>	<u>417,439</u>
<u>OPWC loans payable:</u>							
Fremont Street Pump Station	05/10/01	0.00%	30,416	-	(4,680)	25,736	4,679
CSO #1, Wood County	10/27/98	0.00%	12,924	-	(4,307)	8,617	4,308
Reservoir Rehabilitation	4/23/04	0.00%	37,683	-	(6,851)	30,832	6,851
Columbus Avenue CP15K	1/1/09	0.00%	88,643	-	(3,111)	85,532	3,111
Culbertson Street Water Tower			<u>-</u>	<u>62,536</u>	<u>(3,127)</u>	<u>59,409</u>	<u>6,254</u>
Total OPWC loans			<u>169,666</u>	<u>62,536</u>	<u>(22,076)</u>	<u>210,126</u>	<u>25,203</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			<u>275,982</u>	<u>163,605</u>	<u>(186,789)</u>	<u>252,798</u>	<u>192,393</u>
Total other long-term obligations			<u>275,982</u>	<u>163,605</u>	<u>(186,789)</u>	<u>252,798</u>	<u>192,393</u>
Total business-type activities			<u>\$ 4,763,271</u>	<u>\$ 577,133</u>	<u>\$ (689,214)</u>	<u>\$ 4,651,190</u>	<u>\$ 635,035</u>

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

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

On April 20, 1995, the City defeased 1993 Sewage System Refunding and Improvement Bonds in the amount of \$6,160,000 with interest rates from 3.0% to 4.6%. The amount of defeased debt outstanding at December 31, 2011 is \$1,936,415. The bonds are in an irrevocable trust with an escrow agent to provide for all future debt service payments, and considered defeased.

On December 31, 1997, the City defeased 1989 Reservoir #6 Refinanced Bonds in the amount of \$2,360,000 with interest rates from 6.45% to 7.05%. There is no defeased debt outstanding at December 31, 2011. The proceeds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments.

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

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

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

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

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

The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction projects. The amounts due to the OWDA are payable solely from water and sewer fund revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2011, the City has outstanding borrowings of \$4,188,266. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. OWDA loan #5702 and #5426 are not closed out as of December 31, 2011. Future annual debt service principal and interest requirements for these loans, which have a balance of \$2,234,313 at December 31, 2011, are not available.

D. A summary of the City's future debt service requirements as of December 31, 2011 follows:

Future Payment Due In	Business-Type OWDA Loans			Business-Type OPWC Loans	Governmental OPWC Loans
	Principal	Interest	Total	Principal Only	Principal Only
2012	\$ 417,439	\$ 84,998	\$ 502,437	\$ 25,203	\$ 19,882
2013	436,750	65,688	502,438	25,204	19,882
2014	456,952	45,484	502,436	20,895	19,883
2015	269,344	24,171	293,515	24,321	19,882
2016	67,976	16,621	84,597	14,043	19,882
2017 - 2021	305,492	32,891	338,383	46,030	53,033
2022 - 2026	-	-	-	15,552	-
2027 - 2031	-	-	-	15,552	-
2032 - 2036	-	-	-	15,551	-
2037 - 2039	-	-	-	7,775	-
Total	\$ 1,953,953	\$ 269,853	\$ 2,223,806	\$ 210,126	\$ 152,444

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(SEE ACCOUNTANT’S COMPILATION REPORT)

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Future Payment <u>Due In</u>	Governmental <u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 21,440	\$ 10,446	\$ 31,886
2013	22,765	9,121	31,886
2014	24,140	7,747	31,887
2015	25,597	6,289	31,886
2016	27,129	4,758	31,887
2017 - 2018	<u>59,299</u>	<u>4,472</u>	<u>63,771</u>
Total	<u>\$ 180,370</u>	<u>\$ 42,833</u>	<u>\$ 223,203</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, 2011, the City’s total voted debt margin was \$17,435,941 and the unvoted debt margin was \$9,121,124; both amounts include available funds of \$22,886.

NOTE 14 - RISK MANAGEMENT

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

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

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

Casualty Coverage

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - RISK MANAGEMENT - (Continued)

Property Coverage

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

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

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

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

Financial Position

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

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

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

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

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - RISK MANAGEMENT - (Continued)

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

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

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

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

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

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

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from 2010.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 15 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$299,629, \$280,521, and \$226,533, respectively; 91.86% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$4,016 made by the City and \$2,869 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)**

NOTE 15 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$173,358 and \$190,923 for the year ended December 31, 2011, \$171,859 and \$201,834 for the year ended December 31, 2010, and \$193,333 and \$185,648, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 71.92% has been contributed for police and 71.92% has been contributed for firefighters for 2011.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

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

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$121,014, \$159,444, and \$163,801, respectively; 91.86% has been contributed for 2011 and 100% has been contributed for 2010 and 2009.

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

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$91,778 and \$74,709 for the year ended December 31, 2011, \$90,984 and \$78,979 for the year ended December 31, 2010, and \$102,353 and \$72,645, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 71.92% has been contributed for police and 71.92% has been contributed for firefighters for 2011.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)**

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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>	Fostoria Revolving <u>Loan Fund</u>
Budget basis	\$ 1,981	\$ 210,781
Net adjustment for revenue accruals	(28,820)	(282,925)
Net adjustment for expenditure accruals	(80,237)	275,000
Funds budgeted elsewhere	(21,879)	-
Adjustment for encumbrances	<u>20,773</u>	<u>-</u>
GAAP basis	<u>\$ (108,182)</u>	<u>\$ 202,856</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, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)**

NOTE 18 - FUND BALANCE

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

Fund balance	General	Fostoria Revolving Loan Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Materials and supplies inventory	\$ -	\$ -	\$ 175,288	\$ 175,288
Permanent fund	-	-	19,691	19,691
Total nonspendable	-	-	194,979	194,979
Restricted:				
General government	-	-	87,423	87,423
Security of persons and property	-	-	115,965	115,965
Public health and welfare	-	-	168,168	168,168
Transportation	-	-	590,912	590,912
Community environment	-	2,117,262	68,803	2,186,065
Other	-	-	46,405	46,405
CDBG VOCA/revolving loan	-	-	153,355	153,355
Iron triangle rail park	-	-	32,088	32,088
Indigent drivers interlock	-	-	10,883	10,883
Plaza drive special assessment	-	-	19,355	19,355
Streetscape special assessment	-	-	3,531	3,531
Sewer and water extension	-	-	56,122	56,122
Total restricted	-	2,117,262	1,353,010	3,470,272
Committed:				
General government	-	-	72,260	72,260
Fostoria community trust	-	-	2,368	2,368
General capital improvements	-	-	52,237	52,237
Street maintenance capital	-	-	8,779	8,779
Infrastructure capital improvement	-	-	240,048	240,048
Total committed	-	-	375,692	375,692
Assigned:				
General government	170	-	-	170
Security of persons and property	6,435	-	-	6,435
Transportation	471,555	-	-	471,555
Community and environment	3,180	-	-	3,180
Community development	3,594	-	-	3,594
Total assigned	484,934	-	-	484,934
Unassigned (deficit)	184,771	-	(15,728)	169,043
Total fund balances	\$ 669,705	\$ 2,117,262	\$ 1,907,953	\$ 4,694,920

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(SEE ACCOUNTANT'S COMPILATION REPORT)**

NOTE 19 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 13,196
Other governmental	<u>381,016</u>
Total	<u>\$ 394,212</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, 2011, is \$1,002,595. The City is not obligated in any manner for repayment of the debt. Accordingly, the debt is not reported as a liability in the accompanying financial statements.

City of Fostoria
Seneca County
Schedule of Federal Awards Expenditures
For the Year Ending December 31, 2011

Federal Grantor/Pass Through Grantor Number/Program Title	Pass Through Entity Number	CFDA Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Direct Program			
Airport Improvement Grant	N/A	20.106	\$66,160
Total U.S. Department of Transportation			66,160
<u>U.S. Department of Homeland Security (DHS)</u>			
<u>Federal Emergency Management Agency (FEMA)</u>			
Direct Program			
Staffing for Adequate Fire and Emergency Response (SAFER) Grant	N/A	97.083	358,857
Total U.S. Department of Homeland Security			358,857
<u>U.S. Department of Justice</u>			
<u>Community Oriented Policing Services</u>			
Direct Program			
COPS Hiring Recovery Program - ARRA	N/A	16.710	51,003
Total U.S. Department of Justice			51,003
<u>U.S. Department of Housing and Urban Development</u>			
Pass through Ohio Department of Development, Hancock County Regional Planning Commission Community Development Block Grant			
Community Development Block Grant - 2010	A-F-10-2BN-1	14.228	81,000
Community Development Block Grant - 2009	A-F-09-121-1	14.228	43,020
Community Development Block Grant - CHIP	A-C-10-2BN-1	14.228	77,581
Total Community Development Block Grant			201,601
Home Investment Partnerships Program-CHIP	A-C-10-2BN-2	14.239	22,006
Total U.S. Department of Housing and Urban Development			223,607
<u>U.S. Department of Health & Human Services</u>			
Pass through Ohio Office of Criminal Justice Services Violence Protection Program	N/A	93.671	39,840
Total U.S. Department of Health & Human Services			39,840
Total Federal Awards			\$739,467

See accompanying Notes to the Schedule of Federal Awards Expenditures

**CITY OF FOSTORIA
SENECA COUNTY**

**Notes to the Schedule of Federal Award Expenditures
For the Year Ended December 31, 2011**

Note A- Significant Accounting Policies

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

Note B – Matching Requirements

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

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Cleveland OH 44113-1306
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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

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

To the City Council:

We have audited the financial statements of the governmental activities, 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 30, 2012. We noted that the City implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" for the year December 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-FOST-02 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2011-FOST-01 and 03.

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

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 30, 2012.

We intend this report solely for the information and use of management, the audit committee, City Council, the Auditor of State, federal awarding agencies and pass-through entities and others within the City. We intend it for no one other than these specified parties.



CHARLES E. HARRIS & ASSOCIATES, INC.

August 30, 2012

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

**INDEPENDENT ACCOUNTANTS' 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:

Compliance

We have audited the compliance of the City of Fostoria, Seneca County (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended December 31, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits 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*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Fostoria complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

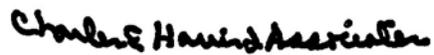
The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2011-FOST-04 to be a material weakness.

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

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies and pass-through entities and others within the City. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Charles E. Harris" followed by "Associates" in a smaller, less legible script.

CHARLES E. HARRIS & ASSOCIATES, INC.

August 30, 2012

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

**CITY OF FOSTORIA
SENECA COUNTY
December 31, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(ii)	<i>Were there any other significant deficiencies reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	Yes
(d)(1)(iv)	<i>Were there any other significant deficiencies reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	Yes
(d)(1)(vii)	<i>Major Programs:</i>	SAFER Grant, CFDA 97.083 Community Devt Block Grant, CFDA 14.228
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	No

**CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS
December 31, 2011**

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

FINDING NUMBER 2011-FOST-01 Noncompliance Citation

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

At December 31, 2011, the following funds' appropriations exceeded total estimated resources:

General Fund (\$303,665)

Special Revenue Funds:

Park and Recreation Fund (\$23,212)

TIF (\$14,649)

Real Estate –Police/Fire Pension Fund (\$17,089)

Enterprise Fund:

Water Revenue (\$281,182)

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.

**CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2011**

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

FINDING NUMBER 2011-FOST-02 Material Weakness

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

During 2011, the City closed out its books each month, however, it did not properly reconcile its fund balances to its bank balances. At the close of 2011, the City was unreconciled by \$3,325. It was determined that utility and income tax credit card payments may have contributed to the difference.

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

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

Management's Response:

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

FINDING NUMBER 2011-FOST-03 Noncompliance Citation

Ohio Rev. Code Section 5705.10, Revised Code, prohibits the City from having negative cash fund balances. A negative fund cash balance implies cash from another fund was used to cover expenses of the negative fund. The following funds had negative cash fund balances at December 31, 2011:

General Fund (\$132,499)
Park and Recreation (\$15,721)

We recommend that the City monitor their fund balances on a regular basis and advance monies when needed.

Management's Response:

The General Fund was negative because it advances the payroll of certain firefighters and police which are then reimbursed by grants from federal agencies. The Park and Recreation Fund was negative because of the cost of operating the pool.

**CITY OF FOSTORIA
SENECA COUNTY
SCHEDULE OF FINDINGS – (continued)
December 31, 2011**

3. FINDINGS RELATED TO FEDERAL AWARDS

Finding Number	2011-FOST-04
CFDA Title and Number	CDBG CFDA# 14.228 and Home Investment Partnerships CFDA# 14.239
Federal Award Year	2009 and 2010
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development and Hancock County Regional Planning Commission

Material Weakness

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

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

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

Management's Corrective Plan:

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2011-04	Management will assign specific account codes and fund numbers to each federal grant projects and local matching share.	September 2012	Steve Garner, City Auditor

**CITY OF FOSTORIA
SENECA COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2011**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-FOST-01	Ohio Revised Code Section 5705.41 (B) - Expenditures Exceeded Appropriations	No	Partially corrected. Moved to management letter.
2010-FOST-02	Ohio Revised Code Section 5705.39 - Total Appropriations Exceeded Estimated Resources	No	Repeated as 2011- FOST-01
2010-FOST-03	Classification of funds	No	Repeated as 2011- FOST-04
2010-FOST-04	Ohio Revised Code Section 5705.10 Negative Cash Fund Balance	No	Repeated as 2011- FOST-03
2010-FOST-05	Cash reconciliation	No	Repeated as 2011- FOST-02

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Dave Yost • Auditor of State

CITY OF FOSTORIA

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 27, 2012**