

**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

***BASIC  
FINANCIAL STATEMENTS***

***(Audited)***

**FOR THE YEAR ENDED  
DECEMBER 31, 2005**

**STEVE GARNER, AUDITOR**





**Auditor of State  
Betty Montgomery**

City Council  
City of Fostoria  
213 South Main Street  
P.O. Box 1007  
Fostoria, Ohio 44830-1007

We have reviewed the *Independent Auditors' Report* of the City of Fostoria, Seneca County, prepared by Julian and Grube, Inc., for the audit period January 1, 2005, through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

September 7, 2006

**This Page is Intentionally Left Blank.**

**CITY OF FOSTORIA, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

TABLE OF CONTENTS

|   |         |
|---|---------|
| Independent Auditors' Report .....  | 1       |
| Management's Discussion and Analysis .....  | 2 - 15  |
| Basic Financial Statements:   |         |
| Government-Wide Financial Statements:   |         |
| Statement of Net Assets .....   | 16      |
| Statement of Activities .....   | 17 - 18 |
| Fund Financial Statements:  |         |
| Balance Sheet - Governmental Funds .....  | 19      |
| Reconciliation of Total Governmental Fund Balances to Net Assets<br>of Governmental Activities .....  | 20      |
| Statement of Revenues, Expenditures and Changes in Fund<br>Balances - Governmental Funds .....  | 21      |
| Reconciliation of the Statement of Revenues, Expenditures and Changes<br>in Fund Balances of Governmental Funds to the Statement of Activities .....  | 22      |
| Statement of Revenues, Expenditures and Changes in Fund<br>Balance - Budget and Actual (Non GAAP Budgetary Basis) -<br>General Fund .....   | 23      |
| Statement of Net Assets - Proprietary Funds .....   | 24      |
| Statement of Revenues, Expenses and Changes in<br>Net Assets - Proprietary Funds .....  | 25      |
| Statement of Cash Flows - Proprietary Funds .....   | 26 - 27 |
| Statement of Fiduciary Net Assets - Fiduciary Funds .....   | 28      |
| Statement of Changes in Fiduciary Net Assets - Fiduciary Fund .....   | 29      |
| Notes to the Basic Financial Statements .....   | 30 - 61 |
| Supplemental Data   |         |
| Schedule of Expenditures of Federal Awards .....  | 62      |
| Report on Internal Control Over Financial Reporting and on Compliance and<br>Other Matters Based on an Audit of Financial Statements Performed<br>In Accordance With <i>Government Auditing Standards</i> ..... | 63 - 64 |
| Report on Compliance with Requirements Applicable to Its<br>Major Program and Internal Control Over Compliance in<br>Accordance with <i>OMB Circular 133</i> .....  | 65 - 66 |
| Schedule of Findings .....  | 67 - 71 |
| Status of Prior Audit Findings .....  | 72      |

**This Page is Intentionally Left Blank.**



## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### Independent Auditors' Report

Members of Council and Mayor  
City of Fostoria  
213 S. Main Street  
Fostoria, Ohio 44830

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, 2005, 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' *Standards Government Auditing*. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the City has presented a prior period adjustment to restate net assets at January 1, 2005 due to fund reclassifications.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2006, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of Council and Mayor  
City of Fostoria  
Page Two

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
June 14, 2006



## CITY OF FOSTORIA, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

The 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, 2005. 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 2005 are as follows:

- The total net assets of the City increased \$681,491. Net assets of governmental activities increased \$378,223 or 2.76% over 2004 and net assets of business-type activities increased \$303,268 or 1.17% over 2004.
- General revenues accounted for \$7,676,497 or 78.62% of total governmental activities revenue. Program specific revenues accounted for \$2,088,322 or 21.38% of total governmental activities revenue.
- The City had \$9,320,535 in expenses related to governmental activities; \$2,088,322 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$7,232,213 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$7,676,497.
- The general fund had revenues and other financing sources of \$8,144,966 in 2005. This represents an increase of \$1,005,762 from 2004 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$7,275,012 in 2005, increased \$368,735 from 2004. The net increase in fund balance for the general fund was \$869,954 or 178.59%.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2005 by \$303,268. This increase in net assets was due primarily to charges for services and other operating income being sufficient to cover expenses.
- In the general fund, the actual revenues and other financing sources were \$236,514 more than in the final budget and actual expenditures and other financing uses were \$529,873 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources increased \$667,015 from the original to the final budget. Budgeted expenditures and other financing uses increased \$631,948 from the original to the final budget due primarily to an increase in the cost of general government expenditures.

#### 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, 2005  
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 2005?" 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, 2005  
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 only major governmental fund is the general fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19-23 of this report.

***Proprietary Funds***

The City maintains two different types of 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 24-27 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 30-61 of this report.

**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net assets for 2005 and 2004:

|   | <b>Net Assets</b>                  |                      |                                     |                      |                      |                      |
|---|------------------------------------|----------------------|-------------------------------------|----------------------|----------------------|----------------------|
|   | <u>Governmental<br/>Activities</u> |                      | <u>Business-type<br/>Activities</u> |                      | <u>Total</u>         |                      |
|   | <u>2005</u>                        | <u>2004</u>          | <u>2005</u>                         | <u>2004</u>          | <u>2005</u>          | <u>2004</u>          |
| <u>Assets</u>                                   |                                    |                      |                                     |                      |                      |                      |
| Current and other assets                        | \$ 8,555,985                       | \$ 7,776,617         | \$ 1,877,468                        | \$ 1,574,290         | \$ 10,433,453        | \$ 9,350,907         |
| Capital assets                                  | <u>8,852,177</u>                   | <u>9,310,275</u>     | <u>30,663,589</u>                   | <u>31,087,057</u>    | <u>39,515,766</u>    | <u>40,397,332</u>    |
| Total assets                                    | <u>17,408,162</u>                  | <u>17,086,892</u>    | <u>32,541,057</u>                   | <u>32,661,347</u>    | <u>49,949,219</u>    | <u>49,748,239</u>    |
| <u>Liabilities</u>                              |                                    |                      |                                     |                      |                      |                      |
| Long-term liabilities outstanding               | 1,851,588                          | 1,811,319            | 5,913,944                           | 6,377,724            | 7,765,532            | 8,189,043            |
| Other liabilities                               | <u>1,439,210</u>                   | <u>1,536,432</u>     | <u>311,871</u>                      | <u>271,649</u>       | <u>1,751,081</u>     | <u>1,808,081</u>     |
| Total liabilities                               | <u>3,290,798</u>                   | <u>3,347,751</u>     | <u>6,225,815</u>                    | <u>6,649,373</u>     | <u>9,516,613</u>     | <u>9,997,124</u>     |
| <u>Net Assets</u>                               |                                    |                      |                                     |                      |                      |                      |
| Invested in capital assets, net of related debt | 8,293,420                          | 8,750,488            | 25,044,122                          | 25,001,229           | 33,337,542           | 33,751,717           |
| Restricted                                      | 4,741,273                          | 4,881,782            | -                                   | -                    | 4,741,273            | 4,881,782            |
| Unrestricted                                    | <u>1,082,671</u>                   | <u>106,871</u>       | <u>1,271,120</u>                    | <u>1,010,745</u>     | <u>2,353,791</u>     | <u>1,117,616</u>     |
| Total net assets                                | <u>\$ 14,117,364</u>               | <u>\$ 13,739,141</u> | <u>\$ 26,315,242</u>                | <u>\$ 26,011,974</u> | <u>\$ 40,432,606</u> | <u>\$ 39,751,115</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$40,432,606. At year-end, net assets were \$14,117,364 and \$26,315,242 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 79.12% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$8,293,420 and \$25,044,122 in the governmental and business-type activities respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$4,741,273, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,082,671 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF FOSTORIA, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**  
**UNAUDITED**

The table below shows the changes in net assets for fiscal years 2005 and 2004.

|                                      | Change in Net Assets |                      |                      |                      |                      |                      |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                                      | Governmental         |                      | Business-type        |                      | Total                |                      |
|                                      | Activities           |                      | Activities           |                      | Total                |                      |
|                                      | 2005                 | 2004                 | 2005                 | 2004                 | 2005                 | 2004                 |
| <b>Revenues</b>                      |                      |                      |                      |                      |                      |                      |
| Program revenues:                    |                      |                      |                      |                      |                      |                      |
| Charges for services                 | \$ 763,413           | \$ 680,984           | \$ 4,148,570         | \$ 3,835,453         | \$ 4,911,983         | \$ 4,516,437         |
| Operating grants and contributions   | 975,837              | 755,350              | -                    | -                    | 975,837              | 755,350              |
| Capital grants and contributions     | <u>349,072</u>       | <u>534,059</u>       | <u>166,022</u>       | <u>7,909</u>         | <u>515,094</u>       | <u>541,968</u>       |
| Total program revenues               | <u>2,088,322</u>     | <u>1,970,393</u>     | <u>4,314,592</u>     | <u>3,843,362</u>     | <u>6,402,914</u>     | <u>5,813,755</u>     |
| General revenues:                    |                      |                      |                      |                      |                      |                      |
| Property taxes                       | 826,764              | 862,308              | -                    | -                    | 826,764              | 862,308              |
| Income taxes                         | 5,702,062            | 5,492,115            | -                    | -                    | 5,702,062            | 5,492,115            |
| Unrestricted grants and entitlements | 909,034              | 663,059              | -                    | -                    | 909,034              | 663,059              |
| Investment earnings                  | 71,931               | 30,397               | -                    | -                    | 71,931               | 30,397               |
| Miscellaneous                        | <u>166,706</u>       | <u>263,854</u>       | <u>412,828</u>       | <u>376,009</u>       | <u>579,534</u>       | <u>639,863</u>       |
| Total general revenues               | <u>7,676,497</u>     | <u>7,311,733</u>     | <u>412,828</u>       | <u>376,009</u>       | <u>8,089,325</u>     | <u>7,687,742</u>     |
| Total revenues                       | <u>9,764,819</u>     | <u>9,282,126</u>     | <u>4,727,420</u>     | <u>4,219,371</u>     | <u>14,492,239</u>    | <u>13,501,497</u>    |
| Expenses:                            |                      |                      |                      |                      |                      |                      |
| General government                   | 1,543,153            | 1,412,661            | -                    | -                    | 1,543,153            | 1,412,661            |
| Security of persons and property     | 5,057,194            | 5,251,126            | -                    | -                    | 5,057,194            | 5,251,126            |
| Public health and welfare            | 266,128              | 266,031              | -                    | -                    | 266,128              | 266,031              |
| Transportation                       | 1,135,184            | 1,051,607            | -                    | -                    | 1,135,184            | 1,051,607            |
| Community environment                | 1,172,436            | 324,664              | -                    | -                    | 1,172,436            | 324,664              |
| Leisure time activity                | 107,579              | 153,354              | -                    | -                    | 107,579              | 153,354              |
| Other                                | 15,597               | 4,986                | -                    | -                    | 15,597               | 4,986                |
| Interest and fiscal charges          | 23,264               | 19,911               | -                    | -                    | 23,264               | 19,911               |
| Water                                | -                    | -                    | 2,542,415            | 2,013,482            | 2,542,415            | 2,013,482            |
| Sewer                                | <u>-</u>             | <u>-</u>             | <u>1,947,798</u>     | <u>1,803,999</u>     | <u>1,947,798</u>     | <u>1,803,999</u>     |
| Total expenses                       | <u>9,320,535</u>     | <u>8,484,340</u>     | <u>4,490,213</u>     | <u>3,817,481</u>     | <u>13,810,748</u>    | <u>12,301,821</u>    |
| Transfers                            | <u>(66,061)</u>      | <u>(186,453)</u>     | <u>66,061</u>        | <u>186,453</u>       | <u>-</u>             | <u>-</u>             |
| Change in net assets                 | 378,223              | 611,333              | 303,268              | 588,343              | 681,491              | 1,199,676            |
| Net assets at beginning of year      | <u>13,739,141</u>    | <u>13,127,808</u>    | <u>26,011,974</u>    | <u>25,423,631</u>    | <u>39,751,115</u>    | <u>38,551,439</u>    |
| Net assets at end of year            | <u>\$ 14,117,364</u> | <u>\$ 13,739,141</u> | <u>\$ 26,315,242</u> | <u>\$ 26,011,974</u> | <u>\$ 40,432,606</u> | <u>\$ 39,751,115</u> |

**Governmental Activities**

Governmental activities net assets increased \$378,223 in 2005.

**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

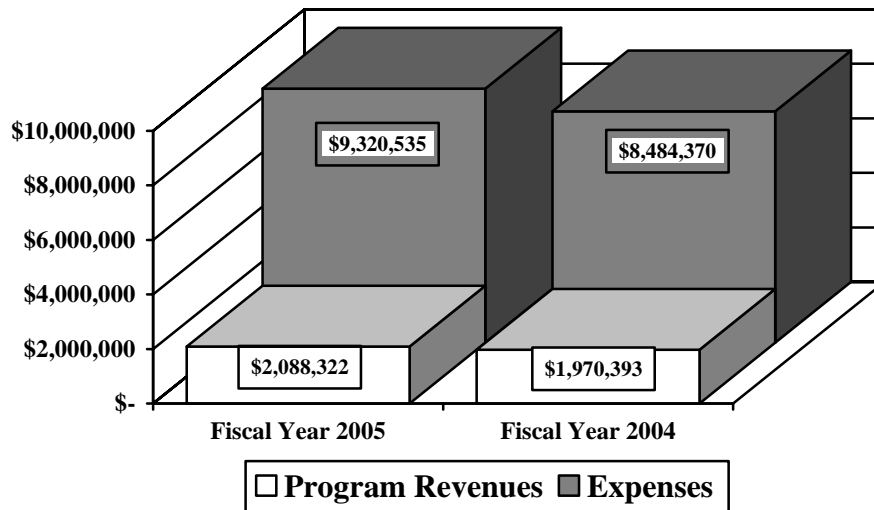
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,057,194 of the total expenses of the City. These expenses were partially funded by \$282,967 in direct charges to users of the services and \$100,534 in operating grants and contributions. Transportation expenses totaled \$1,135,184. Transportation expenses were partially funded by \$700 in direct charges to users of the services and \$772,976 in operating grants and contributions.

The state and federal government contributed to the City a total of \$975,837 in operating grants and contributions and \$349,072 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$772,976 subsidized transportation programs, \$102,327 subsidized community environment programs and \$100,534 subsidized security of persons and property activities.

General revenues totaled \$7,676,497, and amounted to 78.62% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$6,528,826. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$909,034.

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**

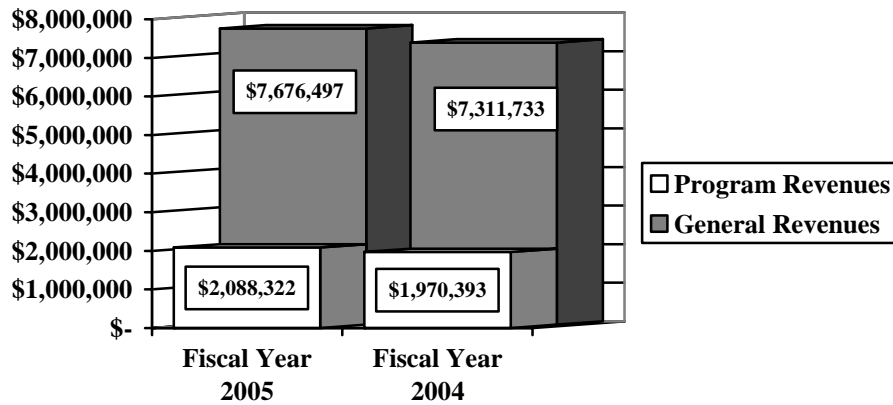
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**Governmental Activities**

|                                  | Total Cost of<br>Services<br><u>2005</u> | Net Cost of<br>Services<br><u>2005</u> | Total Cost of<br>Services<br><u>2004</u> | Net Cost of<br>Services<br><u>2004</u> |
|----------------------------------|--|--|--|--|
| Program Expenses:                |  |  |  |  |
| General government               | \$ 1,543,153                             | \$ 1,207,191                           | \$ 1,412,661                             | \$ 1,101,430                           |
| Security of persons and property | 5,057,194                                | 4,673,693                              | 5,251,126                                | 5,008,445                              |
| Public health and welfare        | 266,128                                  | 197,253                                | 266,031                                  | 149,141                                |
| Transportation                   | 1,135,184                                | 361,508                                | 1,051,607                                | 389,061                                |
| Community environment            | 1,172,436                                | 678,983                                | 324,664                                  | (297,158)                              |
| Leisure time activity            | 107,579                                  | 105,928                                | 153,354                                  | 148,694                                |
| Other                            | 15,597                                   | 12,252                                 | 4,986                                    | 4,986                                  |
| Interest and fiscal charges      | <u>23,264</u>                            | <u>(4,595)</u>                         | <u>19,911</u>                            | <u>9,348</u>                           |
| <b>Total</b>                     | <b><u>\$ 9,320,535</u></b>               | <b><u>\$ 7,232,213</u></b>             | <b><u>\$ 8,484,340</u></b>               | <b><u>\$ 6,513,947</u></b>             |

The dependence upon general revenues for governmental activities is apparent, with 77.60% of expenses supported through taxes and other general revenues.

**Governmental Activities – General and Program Revenues**



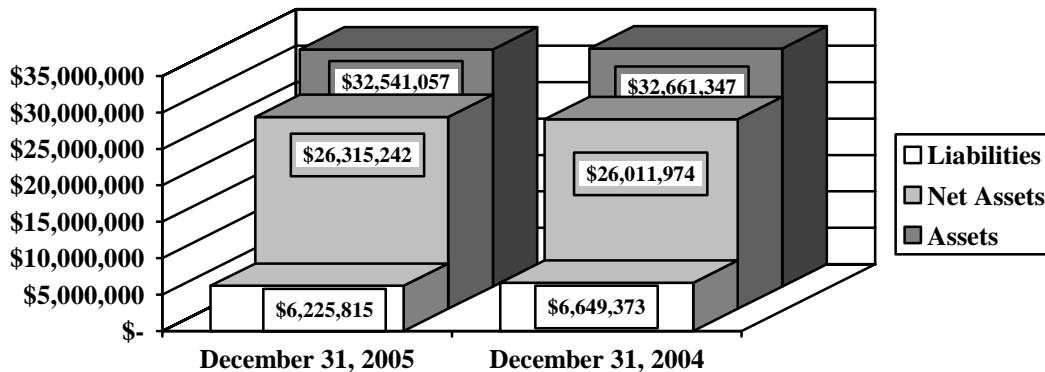
CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED

**Business-type Activities**

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$4,314,592 general revenues of \$412,828, transfers in of \$66,061 and expenses of \$4,490,213 for 2005. 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 19) reported a combined fund balance of \$5,249,127 which is \$1,644,462 greater than last year's total of \$3,604,665. The combined fund balances of the City have been restated at December 31, 2004 due to a fund reclassification (see Note 3 for detail). The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 for all major and nonmajor governmental funds.



**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

|                                   | <u>Fund Balances</u><br><u>12/31/05</u> | <u>Restated</u><br><u>Fund Balances</u><br><u>12/31/04</u> | <u>Increase</u><br><u>(Decrease)</u> |
|-----------------------------------|---|--|--------------------------------------|
| Major funds:                      |   |  |                                      |
| General                           | \$ 1,357,085                            | \$ 487,131   | \$ 869,954                           |
| Other nonmajor governmental funds | <u>3,892,042</u>                        | <u>3,117,534</u>   | <u>774,508</u>                       |
| Total                             | <u>\$ 5,249,127</u>                     | <u>\$ 3,604,665</u>  | <u>\$ 1,644,462</u>                  |

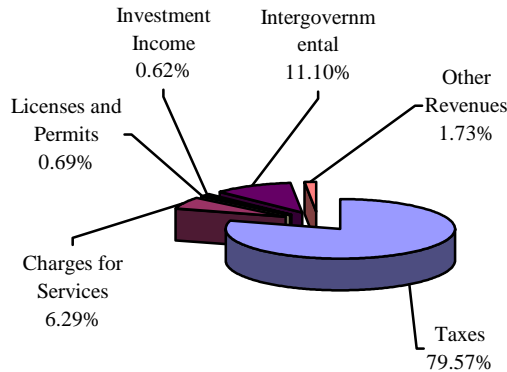
**General Fund**

The City's general fund balance increased \$869,954, primarily due to increases in intergovernmental revenue, taxes and charges for services. The 2004 revenue and expenditure amounts have been restated (see Note 3 for detail). The table that follows assists in illustrating the revenues of the general fund.

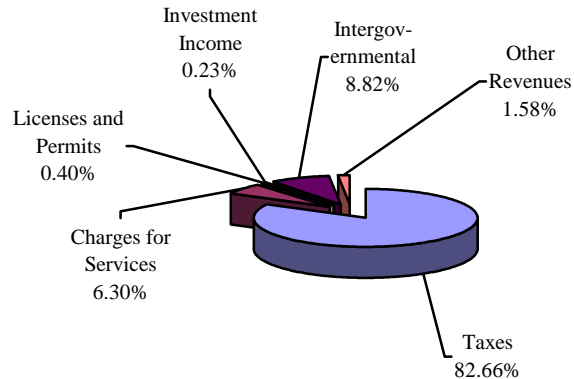
|                            | <u>2005</u><br><u>Amount</u> | <u>Restated</u><br><u>2004</u><br><u>Amount</u> | <u>Percentage</u><br><u>Change</u> |
|----------------------------|------------------------------|---|------------------------------------|
| <b>Revenues</b>            |                              |   |                                    |
| Taxes                      | \$ 6,480,862                 | \$ 6,079,621                                    | 6.60 %                             |
| Charges for services       | 512,320                      | 463,037   | 10.64 %                            |
| Licenses and permits       | 56,360                       | 29,675  | 89.92 %                            |
| Investment income          | 50,640                       | 17,268  | 193.26 %                           |
| Intergovernmental          | 904,064                      | 648,655   | 39.38 %                            |
| Refunds and reimbursements | 77,559                       | 105,082   | (26.19) %                          |
| Other                      | <u>63,161</u>                | <u>11,269</u>                                   | 460.48 %                           |
| Total                      | <u>\$ 8,144,966</u>          | <u>\$ 7,354,607</u>                             | 10.75 %                            |

Tax revenue represents 79.57% of all general fund revenue. Tax revenue increased by 6.60% over prior year. The increase in other revenue is due to an increase in the collections of local revenue. Investment income increased 193.26% due to an increase in interest rates. All other revenue remained comparable to 2004.

**Revenues - Fiscal Year 2005**



**Revenues - Fiscal Year 2004**



**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

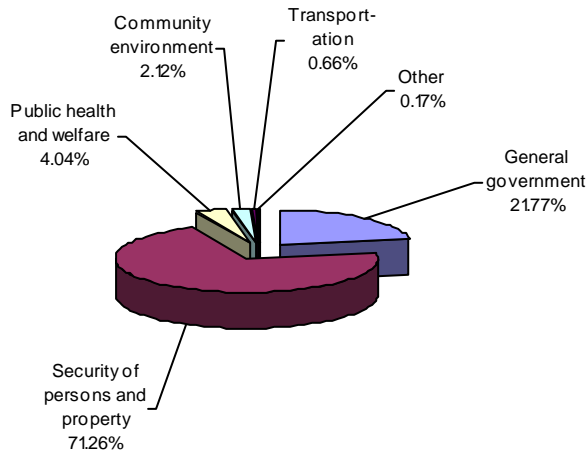
The table that follows assists in illustrating the expenditures of the general fund.

|                                  | <u>2005<br/>Amount</u>     | <u>Restated<br/>2004<br/>Amount</u> | <u>Percentage<br/>Change</u> |
|----------------------------------|----------------------------|-------------------------------------|------------------------------|
| <b><u>Expenditures</u></b>       |                            |                                     |                              |
| General government               | \$ 1,366,879               | \$ 1,172,188                        | 16.61 %                      |
| Security of persons and property | 4,474,499                  | 4,729,189                           | (5.39) %                     |
| Public health and welfare        | 253,003                    | 182,032                             | 38.99 %                      |
| Transportation                   | 41,282                     | 81,886                              | (49.59) %                    |
| Community environment            | 132,573                    | 91,741                              | 44.51 %                      |
| Other                            | 10,512                     | -                                   | 100.00 %                     |
| Debt service                     | -                          | 23,451                              | (100.00) %                   |
| <b>Total</b>                     | <b><u>\$ 6,278,748</u></b> | <b><u>\$ 6,280,487</u></b>          | <b>(0.03) %</b>              |

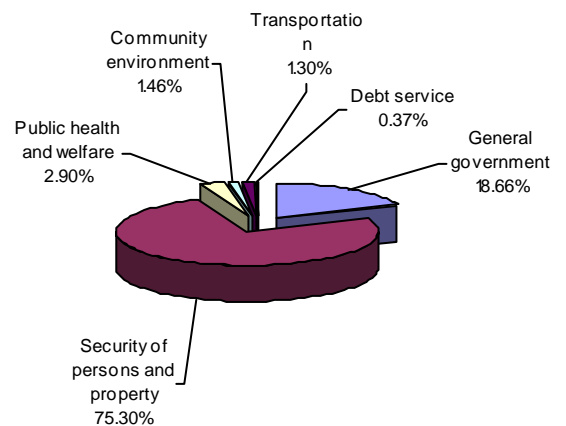
All expenditures remained comparable to 2004. The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to wage and benefit controls and overall cost controls in purchased goods and services.

***Budgeting Highlights***

**Expenditures - Fiscal Year 2005**



**Expenditures - Fiscal Year 2004**



**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

***Budgeting Highlights***

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

In the general fund, the actual revenues and other financing sources were \$236,514 more than in the final budget and actual expenditures and other financing uses were \$529,873 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources increased \$667,015 from the original to the final budget. Budgeted expenditures and other financing uses increased \$631,948 from the original to the final budget due primarily to an increase in the cost of general government expenditures.

***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 fiscal 2005, the City had \$39,515,766 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Of this total, \$8,852,177 was reported in governmental activities and \$30,663,589 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

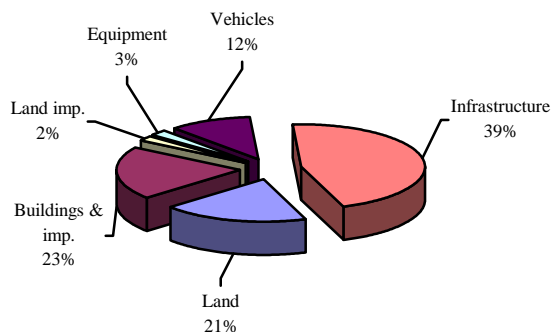
**Capital Assets at December 31  
(Net of Depreciation)**

|                          | <u>Governmental Activities</u> |                            | <u>Business-Type Activities</u> |                             | <u>Total</u>                |                             |
|--------------------------|--------------------------------|----------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
|                          | <u>2005</u>                    | <u>2004</u>                | <u>2005</u>                     | <u>2004</u>                 | <u>2005</u>                 | <u>2004</u>                 |
| Land                     | \$ 1,890,656                   | \$ 1,890,656               | \$ 8,374,270                    | \$ 8,374,270                | \$ 10,264,926               | \$ 10,264,926               |
| Land improvements        | 181,496                        | 197,086                    | -                               | -                           | 181,496                     | 197,086                     |
| Buildings                | 2,036,412                      | 2,139,792                  | 7,689,889                       | 7,885,238                   | 9,726,301                   | 10,025,030                  |
| Equipment                | 224,077                        | 320,840                    | 381,840                         | 423,316                     | 605,917                     | 744,156                     |
| Vehicles                 | 1,076,740                      | 1,084,946                  | 297,075                         | 173,840                     | 1,373,815                   | 1,258,786                   |
| Infrastructure           | 3,442,796                      | 3,676,955                  | 13,920,515                      | 14,047,422                  | 17,363,311                  | 17,724,377                  |
| Construction in progress | -                              | -                          | -                               | 182,971                     | -                           | 182,971                     |
| <b>Totals</b>            | <b><u>\$ 8,852,177</u></b>     | <b><u>\$ 9,310,275</u></b> | <b><u>\$30,663,589</u></b>      | <b><u>\$ 31,087,057</u></b> | <b><u>\$ 39,515,766</u></b> | <b><u>\$ 40,397,332</u></b> |

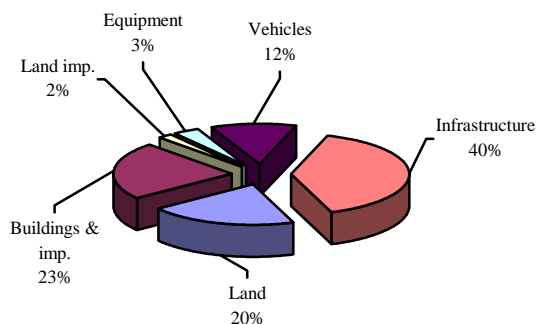
**CITY OF FOSTORIA, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**  
**UNAUDITED**

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

**Capital Assets - Governmental Activities 2005**



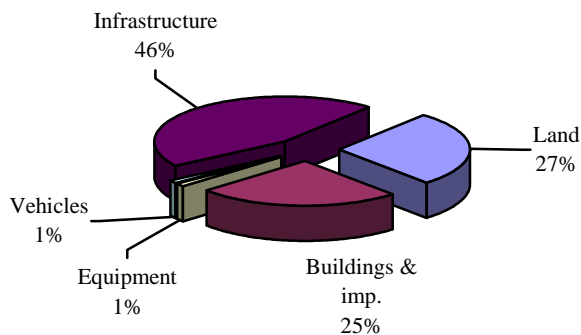
**Capital Assets - Governmental Activities 2004**



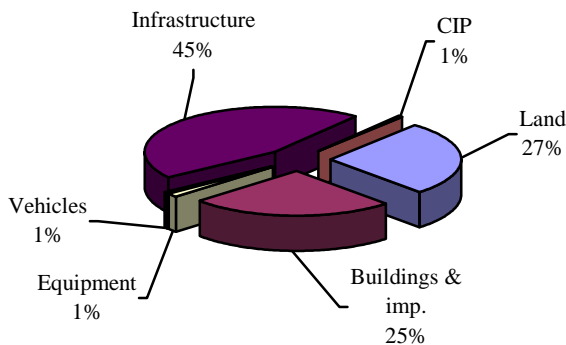
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 45% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2005 and 2004.

**Capital Assets - Business-Type Activities 2005**



**Capital Assets - Business-Type Activities 2004**



The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 46% of the City's total business-type capital assets. See Note 10 to the financial statements for more detail.

**CITY OF FOSTORIA, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**  
**UNAUDITED**

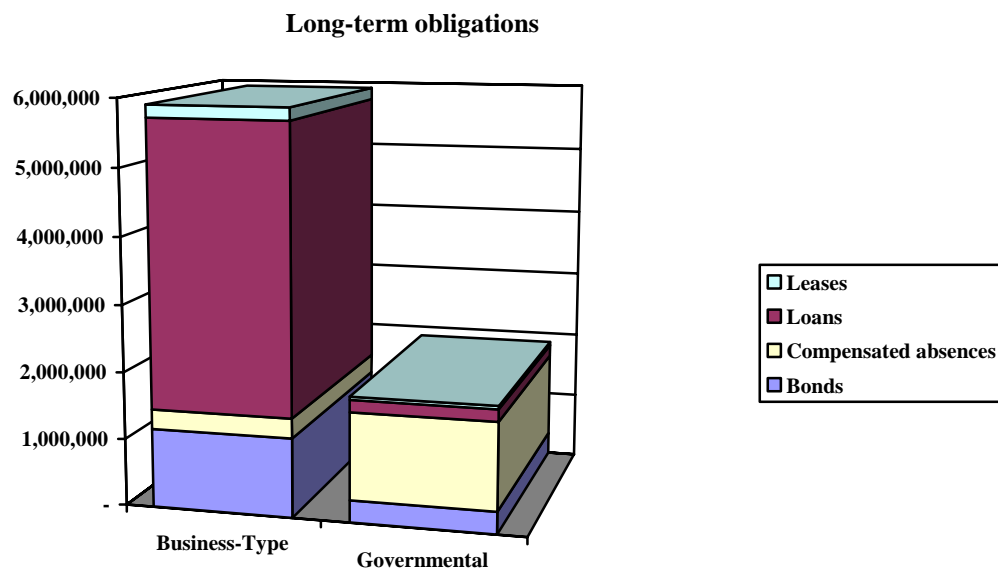
***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2005 and 2004:

|                                    | Governmental Activities |                    |
|------------------------------------|-------------------------|--------------------|
|                                    | 2005                    | 2004               |
| Compensated absences               | \$1,292,831             | \$1,251,532        |
| OPWC loans                         | 177,701                 | 199,758            |
| Capital lease payable              | 50,272                  | -                  |
| Special assessment bonds           | 330,784                 | 360,029            |
| <b>Total long-term obligations</b> | <b>\$1,851,588</b>      | <b>\$1,811,319</b> |

|                                    | Business-type Activities |                    |
|------------------------------------|--------------------------|--------------------|
|                                    | 2005                     | 2004               |
| General obligation bonds           | \$1,180,000              | \$1,545,000        |
| OPWC loans                         | 156,793                  | 97,266             |
| OWDA loans                         | 4,098,340                | 4,402,514          |
| Capital lease payable              | 184,334                  | 41,048             |
| Compensated absences               | 294,477                  | 291,896            |
| <b>Total long-term obligations</b> | <b>\$5,913,944</b>       | <b>\$6,377,724</b> |

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



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

**CITY OF FOSTORIA, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**  
**UNAUDITED**

**Economic Factors and Next Year's Budgets and Rates**

The City's current population as of the 2000 census is 13,931.

Over the past few years, the City has experienced what many cities across the State of Ohio have experienced. A slowdown in the overall economy, decreased funding from both the State and Federal level, and general downsizing in industry have created a challenging economic environment for the City. The loss of jobs and reduction in industry has resulted in decreased income tax revenue projections. This decrease in income tax has been factored into the 2006 budget.

These economic factors were considered in preparing the City's budget for fiscal year 2006. Budgeted revenues and other financing sources in the general fund for fiscal year 2006 budget are \$8,308,845. 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 citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Steve Garner, Auditor, City of Fostoria, 213 S. Main Street, P.O. Box 1007, Fostoria, Ohio 44830.

**BASIC  
FINANCIAL STATEMENTS**

**THIS PAGE IS INTENTIONALLY LEFT BLANK**



**CITY OF FOSTORIA, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

|   | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>         |
|---|------------------------------------|-------------------------------------|----------------------|
| <b>Assets:</b>  |                                    |                                     |                      |
| Equity in pooled cash and cash equivalents. . . . .       | \$ 3,182,691                       | \$ 999,117                          | \$ 4,181,808         |
| Cash and cash equivalents with fiscal agent . . . . .     | 60,946                             | -                                   | 60,946               |
| Receivables (net of allowances for uncollectibles):       |                                    |                                     |                      |
| Income taxes . . . . .                                    | 1,388,371                          | -                                   | 1,388,371            |
| Real and other taxes . . . . .                            | 967,817                            | -                                   | 967,817              |
| Accounts . . . . .  | 3,070                              | 777,177                             | 780,247              |
| Accrued interest . . . . .                                | 61                                 | -                                   | 61                   |
| Special assessments . . . . .                             | 465,955                            | -                                   | 465,955              |
| Intergovernmental . . . . .                               | 934,204                            | -                                   | 934,204              |
| Loans receivable . . . . .                                | 923,288                            | -                                   | 923,288              |
| Mortgage loan receivable . . . . .                        | 577,846                            | -                                   | 577,846              |
| Materials and supplies inventory. . . . .                 | 51,736                             | 30,780                              | 82,516               |
| Deferred charges . . . . .                                | -                                  | 47,923                              | 47,923               |
| Unamortized bond issue costs . . . . .                    | -                                  | 22,471                              | 22,471               |
| Capital assets:   |                                    |                                     |                      |
| Land . . . . .  | 1,890,656                          | 8,374,270                           | 10,264,926           |
| Depreciable capital assets, net . . . . .                 | 6,961,521                          | 22,289,319                          | 29,250,840           |
| Total capital assets, net . . . . .                       | <u>8,852,177</u>                   | <u>30,663,589</u>                   | <u>39,515,766</u>    |
| Total assets. . . . .                                     | <u>17,408,162</u>                  | <u>32,541,057</u>                   | <u>49,949,219</u>    |
| <b>Liabilities:</b>                                       |                                    |                                     |                      |
| Accounts payable. . . . .                                 | 91,428                             | 109,401                             | 200,829              |
| Contracts payable. . . . .                                | 17,840                             | -                                   | 17,840               |
| Accrued wages and benefits . . . . .                      | 126,537                            | 30,475                              | 157,012              |
| Due to other governments . . . . .                        | 107,539                            | 21,087                              | 128,626              |
| Deferred revenue. . . . .                                 | 875,020                            | -                                   | 875,020              |
| Pension obligation payable. . . . .                       | 219,147                            | 47,593                              | 266,740              |
| Accrued interest payable. . . . .                         | 1,699                              | 103,315                             | 105,014              |
| Long-term liabilities:                                    |                                    |                                     |                      |
| Due within one year . . . . .                             | 194,610                            | 649,510                             | 844,120              |
| Due in more than one year . . . . .                       | 1,656,978                          | 5,264,434                           | 6,921,412            |
| Total liabilities . . . . .                               | <u>3,290,798</u>                   | <u>6,225,815</u>                    | <u>9,516,613</u>     |
| <b>Net assets:</b>  |                                    |                                     |                      |
| Invested in capital assets, net of related debt . . . . . | 8,293,420                          | 25,044,122                          | 33,337,542           |
| Restricted for:   |                                    |                                     |                      |
| Capital projects. . . . .                                 | 1,226,754                          | -                                   | 1,226,754            |
| Debt service . . . . .                                    | 72,738                             | -                                   | 72,738               |
| Transportation projects. . . . .                          | 344,879                            | -                                   | 344,879              |
| Revolving loans . . . . .                                 | 1,872,719                          | -                                   | 1,872,719            |
| Permanent fund:   |                                    |                                     |                      |
| Nonexpendable . . . . .                                   | 19,930                             | -                                   | 19,930               |
| Other purposes . . . . .                                  | 1,204,253                          | -                                   | 1,204,253            |
| Unrestricted. . . . .                                     | <u>1,082,671</u>                   | <u>1,271,120</u>                    | <u>2,353,791</u>     |
| Total net assets . . . . .                                | <u>\$ 14,117,364</u>               | <u>\$ 26,315,242</u>                | <u>\$ 40,432,606</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005

|   | <u>Expenses</u>      | <u>Program Revenues</u>     |   |   |
|---|----------------------|-----------------------------|---|---|
|   |                      | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| <b>Governmental Activities:</b>           |                      |                             |   |   |
| General government . . . . .              | \$ 1,543,153         | \$ 335,962                  | \$ -                                      | \$ -                                    |
| Security of persons and property. . . . . | 5,057,194            | 282,967                     | 100,534                                   | -                                       |
| Public health and welfare . . . . .       | 266,128              | 68,875                      | -   | -                                       |
| Transportation . . . . .                  | 1,135,184            | 700                         | 772,976                                   | -                                       |
| Community environment. . . . .            | 1,172,436            | 42,054                      | 102,327                                   | 349,072                                 |
| Leisure time activity. . . . .            | 107,579              | 1,651                       | -   | -                                       |
| Other . . . . .                           | 15,597               | 3,345                       | -   | -                                       |
| Interest and fiscal charges. . . . .      | 23,264               | 27,859                      | -   | -                                       |
| Total governmental activities . . . . .   | <u>9,320,535</u>     | <u>763,413</u>              | <u>975,837</u>                            | <u>349,072</u>                          |
| <b>Business-Type Activities:</b>          |                      |                             |   |   |
| Water . . . . .                           | 2,542,415            | 2,042,735                   | -   | 166,022                                 |
| Sewer . . . . .                           | <u>1,947,798</u>     | <u>2,105,835</u>            | <u>-</u>                                  | <u>-</u>                                |
| Total business-type activities . . . . .  | <u>4,490,213</u>     | <u>4,148,570</u>            | <u>-</u>                                  | <u>166,022</u>                          |
| Total primary government. . . . .         | <u>\$ 13,810,748</u> | <u>\$ 4,911,983</u>         | <u>\$ 975,837</u>                         | <u>\$ 515,094</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 . . . . .   |  |
| Miscellaneous . . . . .   |  |
| Total general revenues. . . . .                                       |  |
| Transfers. . . . .  |  |
| Change in net assets. . . . .   |  |
| <b>Net assets at beginning of year. . . . .</b>                       |  |
| <b>Net assets at end of year . . . . .</b>                            |  |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

| <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>         |
|------------------------------------|-------------------------------------|----------------------|
| \$ (1,207,191)                     | \$ -                                | \$ (1,207,191)       |
| (4,673,693)                        | -                                   | (4,673,693)          |
| (197,253)                          | -                                   | (197,253)            |
| (361,508)                          | -                                   | (361,508)            |
| (678,983)                          | -                                   | (678,983)            |
| (105,928)                          | -                                   | (105,928)            |
| (12,252)                           | -                                   | (12,252)             |
| 4,595                              | -                                   | 4,595                |
| <u>(7,232,213)</u>                 | <u>-</u>                            | <u>(7,232,213)</u>   |
| -                                  | (333,658)                           | (333,658)            |
| -                                  | 158,037                             | 158,037              |
| -                                  | (175,621)                           | (175,621)            |
| <u>(7,232,213)</u>                 | <u>(175,621)</u>                    | <u>(7,407,834)</u>   |
| 716,663                            | -                                   | 716,663              |
| 110,101                            | -                                   | 110,101              |
| 5,702,062                          | -                                   | 5,702,062            |
| 909,034                            | -                                   | 909,034              |
| 71,931                             | -                                   | 71,931               |
| 166,706                            | 412,828                             | 579,534              |
| <u>7,676,497</u>                   | <u>412,828</u>                      | <u>8,089,325</u>     |
| <u>(66,061)</u>                    | <u>66,061</u>                       | <u>-</u>             |
| 378,223                            | 303,268                             | 681,491              |
| <u>13,739,141</u>                  | <u>26,011,974</u>                   | <u>39,751,115</u>    |
| <u>\$ 14,117,364</u>               | <u>\$ 26,315,242</u>                | <u>\$ 40,432,606</u> |

**CITY OF FOSTORIA, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

|   | <u>General</u>      | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|---------------------|---|---|
| <b>Assets:</b>  |                     |   |   |
| Equity in pooled cash and cash equivalents . . . . .    | \$ 975,425          | \$ 2,207,266                            | \$ 3,182,691                            |
| Cash and cash equivalents with fiscal agent . . . . .   | -                   | 60,946                                  | 60,946                                  |
| Receivables (net of allowance for uncollectibles):      |                     |   |   |
| Income taxes. . . . .                                   | 1,388,371           | -                                       | 1,388,371                               |
| Real and other taxes. . . . .                           | 836,658             | 131,159                                 | 967,817                                 |
| Accounts . . . . .                                      | 3,070               | -                                       | 3,070                                   |
| Accrued interest . . . . .                              | -                   | 61                                      | 61                                      |
| Special assessments. . . . .                            | -                   | 465,955                                 | 465,955                                 |
| Due from other funds . . . . .                          | 16,838              | -                                       | 16,838                                  |
| Due from other governments . . . . .                    | 217,965             | 716,239                                 | 934,204                                 |
| Loans receivable . . . . .                              | -                   | 923,288                                 | 923,288                                 |
| Mortgage loan receivable . . . . .                      | -                   | 577,846                                 | 577,846                                 |
| Materials and supplies inventory . . . . .              | -                   | 51,736                                  | 51,736                                  |
| Total assets . . . . .                                  | <u>\$ 3,438,327</u> | <u>\$ 5,134,496</u>                     | <u>\$ 8,572,823</u>                     |
| <b>Liabilities:</b>                                     |                     |   |   |
| Accounts payable . . . . .                              | \$ 59,497           | \$ 31,931                               | \$ 91,428                               |
| Contracts payable . . . . .                             | -                   | 17,840                                  | 17,840                                  |
| Accrued wages and benefits. . . . .                     | 119,074             | 7,463                                   | 126,537                                 |
| Due to other funds . . . . .                            | -                   | 16,838                                  | 16,838                                  |
| Due to other governments. . . . .                       | 54,183              | 53,356                                  | 107,539                                 |
| Deferred revenue . . . . .                              | 1,650,089           | 1,094,278                               | 2,744,367                               |
| Pension obligation payable . . . . .                    | 198,399             | 20,748                                  | 219,147                                 |
| Total liabilities . . . . .                             | <u>2,081,242</u>    | <u>1,242,454</u>                        | <u>3,323,696</u>                        |
| <b>Fund Balances:</b>                                   |                     |   |   |
| Reserved for encumbrances. . . . .                      | 27,044              | 790,807                                 | 817,851                                 |
| Reserved for materials and supplies inventory . . . . . | -                   | 51,736                                  | 51,736                                  |
| Reserved for loans . . . . .                            | -                   | 923,288                                 | 923,288                                 |
| Reserved for mortgages receivable . . . . .             | -                   | 577,846                                 | 577,846                                 |
| Reserved for debt service. . . . .                      | -                   | 21,593                                  | 21,593                                  |
| Unreserved, undesignated, reported in:                  |                     |   |   |
| General fund. . . . .                                   | 1,330,041           | -                                       | 1,330,041                               |
| Special revenue funds. . . . .                          | -                   | 957,618                                 | 957,618                                 |
| Capital projects funds. . . . .                         | -                   | 549,224                                 | 549,224                                 |
| Permanent fund . . . . .                                | -                   | 19,930                                  | 19,930                                  |
| Total fund balances . . . . .                           | <u>1,357,085</u>    | <u>3,892,042</u>                        | <u>5,249,127</u>                        |
| Total liabilities and fund balances. . . . .            | <u>\$ 3,438,327</u> | <u>\$ 5,134,496</u>                     | <u>\$ 8,572,823</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  
DECEMBER 31, 2005

|  |           |                      |
|--|-----------|----------------------|
| <b>Total governmental fund balances</b>  |           | \$ 5,249,127         |
| <i>Amounts reported for governmental activities in 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.                                    |           | 8,852,177            |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.                                   |           |                      |
| Property taxes   | \$ 89,407 |                      |
| Income taxes   | 721,646   |                      |
| Special assessments  | 465,935   |                      |
| Intergovernmental revenues   | 592,359   |                      |
| Total  |           | 1,869,347            |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.  |           | (1,699)              |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows: |           |                      |
| Special assessment bonds payable   | 330,784   |                      |
| Capital lease payable  | 50,272    |                      |
| Compensated absences   | 1,292,831 |                      |
| OPWC loans payable   | 177,701   |                      |
| Total  |           | (1,851,588)          |
| <b>Net assets of governmental activities</b>   |           | <b>\$ 14,117,364</b> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

|  | <u>General</u>      | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|---|---|
| <b>Revenues:</b>   |                     |   |   |
| Municipal income taxes . . . . .                                       | \$ 5,758,115        | \$ -                                    | \$ 5,758,115                            |
| Property and other taxes . . . . .                                     | 722,747             | 110,943                                 | 833,690                                 |
| Charges for services . . . . .   | 512,320             | 7,670                                   | 519,990                                 |
| Licenses and permits . . . . .   | 56,360              | -                                       | 56,360                                  |
| Fines and forfeitures . . . . .  | 15,094              | 43,597                                  | 58,691                                  |
| Intergovernmental . . . . .  | 904,064             | 1,919,913                               | 2,823,977                               |
| Special assessments . . . . .  | -                   | 66,258                                  | 66,258                                  |
| Investment income . . . . .  | 50,640              | 21,291                                  | 71,931                                  |
| Rental income . . . . .  | 18,046              | 1,651                                   | 19,697                                  |
| Refunds and reimbursements . . . . .                                   | 77,559              | 52,345                                  | 129,904                                 |
| Contributions and donations . . . . .                                  | -                   | 75,117                                  | 75,117                                  |
| Other . . . . .  | 30,021              | 87,597                                  | 117,618                                 |
| Total revenues . . . . .   | <u>8,144,966</u>    | <u>2,386,382</u>                        | <u>10,531,348</u>                       |
| <b>Expenditures:</b>   |                     |   |   |
| Current:   |                     |   |   |
| General government . . . . .   | 1,366,879           | 79,018                                  | 1,445,897                               |
| Security of persons and property . . . . .                             | 4,474,499           | 217,459                                 | 4,691,958                               |
| Public health and welfare . . . . .                                    | 253,003             | 45,128                                  | 298,131                                 |
| Transportation . . . . .   | 41,282              | 740,052                                 | 781,334                                 |
| Community environment . . . . .  | 132,573             | 978,053                                 | 1,110,626                               |
| Leisure time activity . . . . .  | -                   | 26,057                                  | 26,057                                  |
| Other . . . . .  | 10,512              | 5,085                                   | 15,597                                  |
| Capital outlay . . . . .   | -                   | 490,027                                 | 490,027                                 |
| Debt service:  |                     |   |   |
| Principal retirement . . . . .   | -                   | 51,302                                  | 51,302                                  |
| Interest and fiscal charges . . . . .                                  | -                   | 21,921                                  | 21,921                                  |
| Total expenditures . . . . .   | <u>6,278,748</u>    | <u>2,654,102</u>                        | <u>8,932,850</u>                        |
| Excess (deficiency) of revenues<br>over (under) expenditures . . . . . | <u>1,866,218</u>    | <u>(267,720)</u>                        | <u>1,598,498</u>                        |
| <b>Other financing sources (uses):</b>                                 |                     |   |   |
| Capital lease transaction . . . . .                                    | -                   | 50,272                                  | 50,272                                  |
| Transfers in . . . . .   | -                   | 1,411,405                               | 1,411,405                               |
| Transfers (out) . . . . .  | (996,264)           | (419,449)                               | (1,415,713)                             |
| Total other financing sources (uses) . . . . .                         | <u>(996,264)</u>    | <u>1,042,228</u>                        | <u>45,964</u>                           |
| Net change in fund balances . . . . .                                  | 869,954             | 774,508                                 | 1,644,462                               |
| <b>Fund balances at beginning of year (restated) .</b>                 | <u>487,131</u>      | <u>3,117,534</u>                        | <u>3,604,665</u>                        |
| <b>Fund balances at end of year . . . . .</b>                          | <u>\$ 1,357,085</u> | <u>\$ 3,892,042</u>                     | <u>\$ 5,249,127</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, 2005

**Net change in fund balances - total governmental funds** \$ 1,644,462

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

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

|                      |            |           |
|----------------------|------------|-----------|
| Capital outlay       | \$ 109,270 |           |
| Depreciation expense | (567,368)  |           |
| Total                |            | (458,098) |

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

|                     |           |           |
|---------------------|-----------|-----------|
| Property taxes      | (6,926)   |           |
| Income taxes        | (56,053)  |           |
| Special assessments | (38,399)  |           |
| Intergovernmental   | (665,151) |           |
| Total               |           | (766,529) |

Repayment of bonds and loans principal are expenditures in the governmental funds, but the repayments reduces long-term liabilities in the statement of net assets.

51,302

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

(50,272)

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

(1,343)

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.

(41,299)

**Change in net assets of governmental activities** \$ 378,223

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, 2005

|   | Budgeted Amounts  |                    | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|--------------------|-------------------|---|
|   | Original          | Final              |                   |   |
| <b>Revenues:</b>  |                   |                    |                   |   |
| Municipal income taxes . . . . .                          | \$ 5,250,000      | \$ 5,616,755       | \$ 5,759,435      | \$ 142,680  |
| Property and other taxes . . . . .                        | 737,190           | 705,024            | 722,933           | 17,909  |
| Charges for services . . . . .                            | 1,949,640         | 1,862,084          | 1,909,386         | 47,302  |
| Licenses and permits. . . . .                             | 39,940            | 53,097             | 54,446            | 1,349   |
| Fines and forfeitures. . . . .                            | 8,500             | 14,720             | 15,094            | 374   |
| Intergovernmental . . . . .                               | 502,563           | 881,666            | 904,063           | 22,397  |
| Investment income . . . . .                               | 15,000            | 49,385             | 50,640            | 1,255   |
| Rental income . . . . .                                   | 15,000            | 17,600             | 18,046            | 446   |
| Refunds and reimbursements. . . . .                       | 75,775            | 75,638             | 77,559            | 1,921   |
| Other . . . . .   | 50,000            | 29,228             | 29,971            | 743   |
| Total revenues. . . . .                                   | <u>8,643,608</u>  | <u>9,305,197</u>   | <u>9,541,573</u>  | <u>236,376</u>  |
| <b>Expenditures:</b>                                      |                   |                    |                   |   |
| Current:  |                   |                    |                   |   |
| General government:                                       |                   |                    |                   |   |
| Legislative and executive. . . . .                        | 2,501,561         | 2,599,154          | 2,330,216         | 268,938   |
| Judicial. . . . .   | 385,597           | 394,495            | 384,394           | 10,101  |
| Security of persons and property . . . . .                | 4,580,561         | 4,679,228          | 4,534,162         | 145,066   |
| Public health and welfare. . . . .                        | 237,117           | 256,201            | 255,162           | 1,039   |
| Transportation . . . . .                                  | 46,639            | 45,312             | 42,243            | 3,069   |
| Community environment . . . . .                           | 99,909            | 157,072            | 161,018           | (3,946)   |
| Total expenditures . . . . .                              | <u>7,851,384</u>  | <u>8,131,462</u>   | <u>7,707,195</u>  | <u>424,267</u>  |
| Excess of revenues over expenditures. . . . .             | <u>792,224</u>    | <u>1,173,735</u>   | <u>1,834,378</u>  | <u>660,643</u>  |
| <b>Other financing sources (uses):</b>                    |                   |                    |                   |   |
| Sale of capital assets. . . . .                           | -                 | 49                 | 50                | 1   |
| Transfers in. . . . .                                     | -                 | 5,377              | 5,514             | 137   |
| Transfers (out). . . . .                                  | (750,000)         | (1,011,264)        | (996,264)         | 15,000  |
| Total other financing sources (uses) . . . . .            | <u>(750,000)</u>  | <u>(1,005,838)</u> | <u>(990,700)</u>  | <u>15,138</u>   |
| Net change in fund balance . . . . .                      | 42,224            | 167,897            | 843,678           | 675,781   |
| <b>Fund balance (deficit) at beginning of year. . . .</b> | (74,684)          | (74,684)           | (74,684)          | -   |
| <b>Prior year encumbrances appropriated . . . . .</b>     | 136,728           | 136,728            | 136,728           | -   |
| <b>Fund balance at end of year. . . . .</b>               | <u>\$ 104,268</u> | <u>\$ 229,941</u>  | <u>\$ 905,722</u> | <u>\$ 675,781</u>                                       |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**CITY OF FOSTORIA, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2005

|   | <b>Business-Type Activities -Enterprise Funds</b> |                      |                      |
|---|---|----------------------|----------------------|
|   | <b>Water</b>                                      | <b>Sewer</b>         | <b>Total</b>         |
| <b>Assets:</b>  |   |                      |                      |
| Current assets:                                       |   |                      |                      |
| Equity in pooled cash and cash equivalents . . . .    | \$ 277,018  | \$ 722,099           | \$ 999,117           |
| Receivables (net of allowance for uncollectibles):    |   |                      |                      |
| Accounts . . . . .                                    | 367,103   | 410,074              | 777,177              |
| Unamortized bond issue costs . . . . .                | 11,168  | 11,303               | 22,471               |
| Deferred charges . . . . .                            | 47,923  | -                    | 47,923               |
| Materials and supplies inventory . . . . .            | 14,237  | 16,543               | 30,780               |
| Total current assets . . . . .                        | <u>717,449</u>                                    | <u>1,160,019</u>     | <u>1,877,468</u>     |
| Noncurrent assets:                                    |   |                      |                      |
| Capital assets:                                       |   |                      |                      |
| Land . . . . .  | 8,121,300   | 252,970              | 8,374,270            |
| Depreciable capital assets, net . . . . .             | 9,550,888   | 12,738,431           | 22,289,319           |
| Total capital assets, net . . . . .                   | <u>17,672,188</u>                                 | <u>12,991,401</u>    | <u>30,663,589</u>    |
| Total assets . . . . .                                | <u>18,389,637</u>                                 | <u>14,151,420</u>    | <u>32,541,057</u>    |
| <b>Liabilities:</b>                                   |   |                      |                      |
| Current liabilities:                                  |   |                      |                      |
| Accounts payable . . . . .                            | 33,961  | 75,440               | 109,401              |
| Accrued wages and benefits . . . . .                  | 16,389  | 14,086               | 30,475               |
| Due to other governments . . . . .                    | 11,270  | 9,817                | 21,087               |
| Pension obligation payable . . . . .                  | 27,592  | 20,001               | 47,593               |
| Accrued interest payable . . . . .                    | 26,076  | 77,239               | 103,315              |
| Current portion of compensated absences . . . . .     | 23,706  | 17,368               | 41,074               |
| Current portion of refunding bonds . . . . .          | 215,000   | -                    | 215,000              |
| Current portion of capital lease obligation . . . . . | 13,665  | 49,061               | 62,726               |
| Current portion of OWDA loans . . . . .               | 42,884  | 275,361              | 318,245              |
| Current portion of OPWC loans . . . . .               | 3,479   | 8,986                | 12,465               |
| Total current liabilities . . . . .                   | <u>414,022</u>                                    | <u>547,359</u>       | <u>961,381</u>       |
| Long-term liabilities:                                |   |                      |                      |
| Refunding bonds . . . . .                             | 965,000   | -                    | 965,000              |
| Capital lease obligation . . . . .                    | 14,540  | 107,068              | 121,608              |
| OWDA loans . . . . .                                  | 862,831   | 2,917,264            | 3,780,095            |
| OPWC loans . . . . .                                  | 65,036  | 79,292               | 144,328              |
| Compensated absences . . . . .                        | 146,252   | 107,151              | 253,403              |
| Total long-term liabilities . . . . .                 | <u>2,053,659</u>                                  | <u>3,210,775</u>     | <u>5,264,434</u>     |
| Total liabilities . . . . .                           | <u>2,467,681</u>                                  | <u>3,758,134</u>     | <u>6,225,815</u>     |
| <b>Net assets:</b>                                    |   |                      |                      |
| Invested in capital assets, net of related debt . . . | 15,489,753  | 9,554,369            | 25,044,122           |
| Unrestricted . . . . .                                | 432,203   | 838,917              | 1,271,120            |
| Total net assets . . . . .                            | <u>\$ 15,921,956</u>                              | <u>\$ 10,393,286</u> | <u>\$ 26,315,242</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, 2005

|   | <b>Business-Type Activities - Enterprise Funds</b> |                      |                      |
|---|--|----------------------|----------------------|
|   | <b>Water</b>                                       | <b>Sewer</b>         | <b>Total</b>         |
| <b>Operating revenues:</b>                                      |  |                      |                      |
| Charges for services . . . . .                                  | \$ 2,019,835                                       | \$ 2,100,360         | \$ 4,120,195         |
| Tap-in fees. . . . .  | 22,900   | 5,475                | 28,375               |
| Refunds and reimbursements . . . . .                            | 179,401  | 151,688              | 331,089              |
| Other. . . . .  | 27,789   | 53,950               | 81,739               |
| <b>Total operating revenues . . . . .</b>                       | <b>2,249,925</b>                                   | <b>2,311,473</b>     | <b>4,561,398</b>     |
| <b>Operating expenses:</b>                                      |  |                      |                      |
| Personal services . . . . .                                     | 1,060,095  | 860,429              | 1,920,524            |
| Contract services . . . . .                                     | 381,315  | 209,642              | 590,957              |
| Materials and supplies . . . . .                                | 388,581  | 129,419              | 518,000              |
| Utilities . . . . .   | 236,079  | 263,628              | 499,707              |
| Depreciation . . . . .  | 333,927  | 319,562              | 653,489              |
| Other . . . . .   | 8,079  | -                    | 8,079                |
| <b>Total operating expenses. . . . .</b>                        | <b>2,408,076</b>                                   | <b>1,782,680</b>     | <b>4,190,756</b>     |
| <b>Operating income (loss) . . . . .</b>                        | <b>(158,151)</b>                                   | <b>528,793</b>       | <b>370,642</b>       |
| <b>Nonoperating revenues (expenses):</b>                        |  |                      |                      |
| Intergovernmental. . . . .                                      | 166,022  | -                    | 166,022              |
| Interest expense and fiscal charges . . . . .                   | (134,339)  | (165,118)            | (299,457)            |
| <b>Total nonoperating revenues (expenses) . . . . .</b>         | <b>31,683</b>                                      | <b>(165,118)</b>     | <b>(133,435)</b>     |
| <b>Income (loss) before transfers and capital contributions</b> | <b>(126,468)</b>                                   | <b>363,675</b>       | <b>237,207</b>       |
| Transfers in . . . . .  | -  | 52,752               | 52,752               |
| Transfers (out). . . . .  | (48,444)   | -                    | (48,444)             |
| Capital contributions . . . . .                                 | 61,753   | -                    | 61,753               |
| <b>Changes in net assets . . . . .</b>                          | <b>(113,159)</b>                                   | <b>416,427</b>       | <b>303,268</b>       |
| <b>Net assets at beginning of year . . . . .</b>                | <b>16,035,115</b>                                  | <b>9,976,859</b>     | <b>26,011,974</b>    |
| <b>Net assets at end of year. . . . .</b>                       | <b>\$ 15,921,956</b>                               | <b>\$ 10,393,286</b> | <b>\$ 26,315,242</b> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2005

|   | <b>Business-Type Activities - Enterprise Funds</b> |                          |                          |
|---|--|--------------------------|--------------------------|
|   | <b>Water</b>                                       | <b>Sewer</b>             | <b>Total</b>             |
| <b>Cash flows from operating activities:</b>                        |  |                          |                          |
| Cash received from customers . . . . .                              | \$ 1,962,556                                       | \$ 1,987,821             | \$ 3,950,377             |
| Cash received from tap-in fees . . . . .                            | 22,900   | 5,475                    | 28,375                   |
| Cash received from refunds and reimbursements . . . . .             | 179,401  | 151,688                  | 331,089                  |
| Cash received from other operations . . . . .                       | 27,789   | 53,950                   | 81,739                   |
| Cash payments for personal services . . . . .                       | (1,050,289)  | (879,382)                | (1,929,671)              |
| Cash payments for contract services . . . . .                       | (383,249)  | (166,135)                | (549,384)                |
| Cash payments for materials and supplies . . . . .                  | (376,140)  | (133,279)                | (509,419)                |
| Cash payments for utilities . . . . .                               | (235,894)  | (263,502)                | (499,396)                |
| Cash payments for other expenses . . . . .                          | (8,079)  | -                        | (8,079)                  |
| Net cash provided by operating activities . . . . .                 | <u>138,995</u>                                     | <u>756,636</u>           | <u>895,631</u>           |
| <b>Cash flows from noncapital financing activities:</b>             |  |                          |                          |
| Cash received from transfers in . . . . .                           | -  | 52,752                   | 52,752                   |
| Cash payments for transfers (out) . . . . .                         | (48,444)   | -                        | (48,444)                 |
| Cash received from intergovernmental revenues . . . . .             | 166,022  | -                        | 166,022                  |
| Net cash provided by noncapital financing activities . . . . .      | <u>117,578</u>                                     | <u>52,752</u>            | <u>170,330</u>           |
| <b>Cash flows from capital and related financing activities:</b>    |  |                          |                          |
| Acquisition of capital assets . . . . .                             | (278)  | (7,390)                  | (7,668)                  |
| Loan issuance . . . . .   | 68,515   | -                        | 68,515                   |
| Principal retirement on bonds and loans . . . . .                   | (250,953)  | (427,209)                | (678,162)                |
| Interest paid on bonds and loans . . . . .                          | (108,771)  | (161,748)                | (270,519)                |
| Principal retirement on capital lease . . . . .                     | (12,843)   | -                        | (12,843)                 |
| Interest paid on capital lease . . . . .                            | (2,627)  | -                        | (2,627)                  |
| Net cash used in capital and related financing activities . . . . . | <u>(306,957)</u>                                   | <u>(596,347)</u>         | <u>(903,304)</u>         |
| Net increase (decrease) in cash and cash equivalents . . . . .      | (50,384)   | 213,041                  | 162,657                  |
| <b>Cash and cash equivalents at beginning of year . . . . .</b>     | <u>327,402</u>                                     | <u>509,058</u>           | <u>836,460</u>           |
| <b>Cash and cash equivalents at end of year . . . . .</b>           | <u><u>\$ 277,018</u></u>                           | <u><u>\$ 722,099</u></u> | <u><u>\$ 999,117</u></u> |

**CITY OF FOSTORIA, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2005

|  | <b>Business-Type Activities - Enterprise Funds</b> |              |              |
|--|--|--------------|--------------|
|  | <b>Water</b>                                       | <b>Sewer</b> | <b>Total</b> |
| <b>Reconciliation of operating income (loss)<br/>to net cash provided by operating activities:</b> |  |              |              |
| Operating income (loss) . . . . .  | \$ (158,151)                                       | \$ 528,793   | \$ 370,642   |
| Adjustments:   |  |              |              |
| Depreciation . . . . .   | 333,927  | 319,562      | 653,489      |
| Changes in assets and liabilities:   |  |              |              |
| Decrease (increase) in materials and<br>supplies inventory. . . . .                                | (580)  | 10           | (570)        |
| Increase in accounts receivable. . . . .   | (57,279)   | (112,539)    | (169,818)    |
| Increase in accounts payable . . . . .   | 11,272   | 39,763       | 51,035       |
| Decrease in accrued wages and benefits . . . . .   | (2,764)  | (681)        | (3,445)      |
| Decrease in pension obligations payable . . . . .  | (2,479)  | (2,332)      | (4,811)      |
| Decrease in due to other governments . . . . .   | (1,566)  | (1,906)      | (3,472)      |
| Increase (decrease) in compensated<br>absences payable . . . . .                                   | 16,615   | (14,034)     | 2,581        |
| Net cash provided by operating activities . . . . .  | \$ 138,995   | \$ 756,636   | \$ 895,631   |
| <b>Noncash investing, capital and financing activities:</b>  |  |              |              |
| Contributions of capital assets  | \$ 61,753  | \$ -         | \$ 61,753    |

At December 31, 2004, the Water fund purchased \$2,619 in capital assets on account.  
 At December 31, 2005, the Water fund purchased \$6,571 in capital assets on account.  
 At December 31, 2004, the Sewer fund purchased \$10,534 in capital assets on account.  
 At December 31, 2005, the Sewer fund purchased \$11,053 in capital assets on account.

During 2005 the sewer fund entered into a \$156,129 capital lease agreement. This lease is for the acquisition of a street sweeper.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 DECEMBER 31, 2005

|  | <u>Private<br/>Purpose Trust</u> | <u>Agency</u> |
|--|----------------------------------|---------------|
| <b>Assets:</b>                                       |                                  |               |
| Equity in pooled cash and cash equivalents . . . . . | \$ 17,458                        | \$ 44         |
| Cash in segregated accounts . . . . .                | -                                | 34,594        |
| Due from other governments . . . . .                 | -                                | 10,625        |
|  | <hr/>                            | <hr/>         |
| Total assets. . . . .                                | 17,458                           | \$ 45,263     |
|  | <hr/>                            | <hr/>         |
| <b>Liabilities:</b>                                  |                                  |               |
| Due to other governments . . . . .                   | -                                | \$ 29,606     |
| Undistributed monies . . . . .                       | -                                | 15,657        |
|  | <hr/>                            | <hr/>         |
| Total liabilities . . . . .                          | -                                | \$ 45,263     |
|  | <hr/>                            | <hr/>         |
| <b>Net assets:</b>                                   |                                  |               |
| Held in trust for other purposes . . . . .           | 17,458                           |               |
|  | <hr/>                            |               |
| Total net assets . . . . .                           | \$ 17,458                        |               |
|  | <hr/>                            |               |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

|  | <u>Private<br/>Purpose Trust</u> |                      |
|--|----------------------------------|----------------------|
| <b>Additions:</b>  |                                  |                      |
| Donations . . . . .                                      | \$                               | 1,000                |
| Interest . . . . .                                       |                                  | <u>333</u>           |
| Total additions . . . . .                                |                                  | <u>1,333</u>         |
| <b>Deductions:</b>                                       |                                  |                      |
| Other . . . . .  |                                  | <u>1,102</u>         |
| Total deductions . . . . .                               |                                  | <u>1,102</u>         |
| Changes in net assets . . . . .                          |                                  | 231                  |
| <b>Net assets at the beginning of the year . . . . .</b> |                                  | <u>17,227</u>        |
| <b>Net assets at the end of the year . . . . .</b>       | \$                               | <u><u>17,458</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, 2005

#### NOTE 1 - DESCRIPTION OF THE CITY

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

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units". The City includes in its reporting entity all funds, account groups, agencies and departments over which the City's executive or legislative branches (the Mayor or Council, respectively) exercise primary oversight responsibility. The City's reporting entity has been defined according to Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity". Based on application of the criteria set forth in GASB Statement No. 14, 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 organizations are described due to their relationship to the City:

##### *JOINTLY GOVERNED ORGANIZATIONS*

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, 2005

**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 ORGANIZATIONS*

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

During the year ended December 31, 2005, the City collected an income tax for the purpose of supporting the Kaubisch Memorial Public Library. A total of \$50,000 was paid to the Library.

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

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

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

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



**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

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

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

**C. Fund Accounting**

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

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

*General Fund* - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**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.

*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.

**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, 2005

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

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

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

**Deferred Revenue** - Deferred revenue arises 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, 2005 but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also 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, 2005

**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 fund level 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 2005.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**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 2005, investments were limited to 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 share price which is the price the investment could be sold for on December 31, 2005.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2005 amounted to \$50,640, which included \$40,033 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, 2005 was \$60,946. 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.

An analysis of the City's investment account at year-end is provided in Note 4.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

**H. Inventories of Materials and Supplies**

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

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

**I. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed 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<br/>Activities<br/>Estimated Lives</u> | <u>Business-Type<br/>Activities<br/>Estimated Lives</u> |
|-------------------------|--|---|
| Improvements to land    | 15 - 20 years  | 15 - 20 years   |
| Buildings               | 20 - 45 years  | 50 years  |
| Machinery and equipment | 5 - 30 years   | 5 - 20 years  |
| Vehicles                | 3 - 10 years   | 3 - 10 years  |
| Infrastructure          | 10 - 50 years  | 80 years  |

**J. Compensated Absences**

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**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 "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, 2005**

**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 Reserves**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, materials and supplies inventory, loans, mortgages receivable, and debt service in the governmental fund financial statements.

**O. Estimates**

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS and accompanying notes. Actual results may differ from those estimates.

**P. Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

**Q. Net Assets**

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

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



**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

**R. Bond Discounts, Premiums, and Issuance Costs**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2005, the City has implemented GASB Statement No. 40 "Deposit and Investment Risk Disclosures", and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries".

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 4 for GASB Statement No. 40.

**B. Fund Reclassification**

The City has reclassified the EMS special revenue fund as a component of the general fund. This fund classification had the following effect on fund balance at December 31, 2004:

|                       | <u>General</u> | <u>Nonmajor</u> | <u>Total</u> |
|-----------------------|----------------|-----------------|--------------|
| Fund balance          |                |                 |              |
| December 31, 2004     | \$ 385,646     | \$ 3,219,019    | \$ 3,604,665 |
| Fund reclassification | 101,485        | (101,485)       | -            |
| Restated fund balance |                |                 |              |
| January 1, 2005       | \$ 487,131     | \$ 3,117,534    | \$ 3,604,665 |

**C. Compliance**

The following fund had a negative cash balance contrary to Ohio Revised Code Section 5705.10.

|                      | <u>Deficit</u> |
|----------------------|----------------|
| <u>Nonmajor Fund</u> |                |
| CDBG FY 2003         | \$ 16,838      |

The general fund is liable for any negative cash balances at December 31, 2005.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

Total appropriations exceeded total estimated resources in the following funds contrary to Ohio Revised Code Section 5705.39:

| <u>Fund</u>                               | <u>Excess</u> |
|---|---------------|
| <u>Nonmajor Funds</u>                     |               |
| Street Construction, Maintenance & Repair | \$ 47,181     |
| COPS                                      | 100,000       |
| FEMA Grant                                | 36,760        |
| Fire Department Grant                     | 62,927        |
| Airport Grant                             | 240,000       |
| CDBG FY03                                 | 17,716        |
| Charter Government                        | 550           |
| Termination Benefits                      | 5,085         |

The City had expenditures exceeding appropriations in the following funds contrary to Ohio Revised Code Section 5705.41(B):

| <u>Fund/Department/Object</u> | <u>Excess</u> |
|-------------------------------|---------------|
| <b>Major Funds:</b>           |               |
| General Fund                  |               |
| Fire Fighting                 |               |
| Other                         | \$ 79,435     |
| Street Lights                 |               |
| Other                         | 1,562         |
| Cemetary                      |               |
| Other                         | 2,362         |
| Clerk of Court                |               |
| Personal Service              | 1,497         |
| Land & Building               |               |
| Other                         | 2,858         |
| Civil Service                 |               |
| Other                         | 137           |
| County Auditors               |               |
| Other                         | 4,785         |
| Engineering                   |               |
| Other                         | 6,987         |
| <b>Enterprise Funds:</b>      |               |
| Water Revenue                 |               |
| Other                         | 30,799        |
| Sewer Revenue                 |               |
| Other                         | 34,709        |
| Sewer Revenue Capital         |               |
| Other                         | 26            |

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

| <u>Fund/Department/Object</u>  | <u>Excess</u> |
|--------------------------------|---------------|
| <b>Nonmajor Funds:</b>         |               |
| Special Revenue Funds          |               |
| Street Maintenance & Repair    |               |
| Other                          | \$ 11,129     |
| State Highway Improvement      |               |
| Other                          | 32,185        |
| Operating                      |               |
| Other                          | 966           |
| Grants-Brownfield              |               |
| Other                          | 10,000        |
| Park & Rec.                    |               |
| Other                          | 691           |
| Prosecutor's City Contribution |               |
| Personal Service               | 1,765         |
| Police/Fire Pension            |               |
| Other                          | 1,679         |
| Capital Projects Funds         |               |
| Sewer & Water Extension        |               |
| Other                          | 14,300        |

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

Interim monies may be deposited or invested in the following:

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

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

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;
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 treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash in Segregated Accounts**

At year-end, \$34,594 was on deposit in segregated accounts for the Municipal Court and income tax credit card account, and 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, 2005, \$60,946 was on deposit with the City's fiscal agent for undistributed permissive tax received. This amount is excluded from the internal cash pool reported on the balance sheet as "Equity in Pooled Cash and Cash Equivalents".

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

**C. Deposits with Financial Institutions**

At December 31, 2005, the carrying amount of all City deposits, including cash with fiscal agent and cash in segregated accounts, was \$2,886,380. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$2,929,216 of the City's bank balance of \$3,098,539 was exposed to custodial risk as discussed below, while \$169,323 was covered by Federal Deposit Insurance Corporation.

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.

**D. Investments**

As of December 31, 2005, the City had the following investments and maturities:

| <u>Investment type</u> | <u>Fair Value</u>   | Investment Maturity<br>6 months or<br>less |
|------------------------|---------------------|--|
| STAR Ohio              | \$ 1,312,930        | \$ 1,312,930                               |
|                        | <u>\$ 1,312,930</u> | <u>\$ 1,312,930</u>                        |

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

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

*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, 2005:

| <u>Investment type</u> | <u>Fair Value</u>   | <u>% to Total</u> |
|------------------------|---------------------|-------------------|
| STAR Ohio              | \$ 1,312,930        | 100.00%           |
|                        | <u>\$ 1,312,930</u> | <u>100.00%</u>    |

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

**E. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2005:

| <u>Cash and Investments per footnote</u>                |                     |
|---|---------------------|
| Carrying amount of deposits                             | \$ 2,886,380        |
| Investments   | 1,312,930           |
| Cash with fiscal agent                                  | 60,946              |
| Cash in segregated accounts                             | <u>34,594</u>       |
| Total   | <u>\$ 4,294,850</u> |
| <u>Cash and investments per Statement of Net Assets</u> |                     |
| Governmental activities                                 | \$ 3,243,637        |
| Business-type activities                                | 999,117             |
| Private-purpose funds                                   | 17,458              |
| Agency funds  | <u>34,638</u>       |
| Total   | <u>\$ 4,294,850</u> |

**NOTE 5 - INTERFUND TRANSFERS**

A. Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported in the fund financial statements:

| Transfers to              | Transfers from    |                                |                                 |                  | Total               |
|---------------------------|-------------------|--------------------------------|---------------------------------|------------------|---------------------|
|                           | General           | Nonmajor<br>Special<br>Revenue | Nonmajor<br>Capital<br>Projects | Water            |                     |
| Nonmajor Special Revenue  | \$ 346,264        | \$ 323,541                     | \$ 15,000                       | \$ -             | \$ 684,805          |
| Nonmajor Capital Projects | 650,000           | -                              | 76,600                          | -                | 726,600             |
| Sewer Fund                | -                 | -                              | <u>4,308</u>                    | <u>48,444</u>    | <u>52,752</u>       |
|                           | <u>\$ 996,264</u> | <u>\$ 323,541</u>              | <u>\$ 95,908</u>                | <u>\$ 48,444</u> | <u>\$ 1,464,157</u> |

Other governmental funds had transfers of \$419,449 to other governmental funds to meet grant requirements and subsidize operations.

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

B. Due to/from other funds consisted of the following at December 31, 2005, as reported on the fund financial statements:

| <u>Receivable Fund</u> | <u>Payable Fund</u>         | <u>Amount</u> |
|------------------------|-----------------------------|---------------|
| General Fund           | Nonmajor governmental funds | \$ 16,838     |

Due to/from other funds is required to cover negative cash balances at year-end.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or semi-annually. The first payment for 2005 was due January 1, with the remainder payable by July 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

If paid annually, payment is due April 30, and if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

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. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Hancock, Seneca and Wood County Treasurers collect property taxes on behalf of all taxing districts in the County, including the City of Fostoria. The County Auditors periodically remits to the City its portion of the taxes collected.

The full tax rates applied to real property and tangible personal property for the fiscal year ended December 31, 2005 were as follows:

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

The effective tax rates per \$1,000 of assessed valuation are the same as the voted tax rates.

Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

The assessed values upon which the 2005 taxes were collected are as follows:

| Real Property - 2004 Valuation              | Amount               |
|---|----------------------|
| Residential/agricultural                    | \$ 97,863,810        |
| Commercial/industrial                       | 48,596,340           |
| Public utilities                            | <u>163,370</u>       |
| Totals                                      | <u>146,623,520</u>   |
| Tangible Personal Property - 2004 Valuation |                      |
| General                                     | \$ 44,973,883        |
| Public utilities                            | <u>7,565,810</u>     |
| Totals                                      | <u>\$ 52,539,693</u> |

**NOTE 7 - LOCAL INCOME TAX**

This locally levied tax of 2 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City, and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of for-profit organizations conducting business within the City. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2005 was \$5,758,115 as reported on the fund financial statements.



**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2005, consisted of taxes, accounts (billings for user charged services), interest, loans, mortgage 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, 2005, as well as intended to finance fiscal 2005 operations.

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

**Governmental Activities:**

|                            |             |
|----------------------------|-------------|
| Income taxes               | \$1,388,371 |
| Real and other taxes       | 967,817     |
| Accounts                   | 3,070       |
| Accrued interest           | 61          |
| Special assessments        | 465,955     |
| Due from other governments | 934,204     |
| Loans                      | 923,288     |
| Mortgage loans             | 577,846     |

**Business-Type Activities:**

|          |         |
|----------|---------|
| Accounts | 777,177 |
|----------|---------|

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, loans and mortgage 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 2005, there were loans outstanding to businesses with a total principal balance due of \$923,288.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 10 - CAPITAL ASSETS**

- A. The balances of governmental activities land improvements and buildings have been restated due to errors reported in the prior year. Land improvements have been restated from \$6,922,570 to \$498,469 and buildings from \$776,438 to \$7,220,539 at December 31, 2004. This restatement did not have an affect on net assets as of December 31, 2004. Capital asset activity for the year ended December 31, 2005, was as follows:

| <b><u>Governmental Activities:</u></b>            | <u>Restated<br/>Balance<br/>12/31/04</u> | <u>Additions</u>    | <u>Disposals</u> | <u>Balance<br/>12/31/05</u> |
|---|--|---------------------|------------------|-----------------------------|
| <i>Capital assets, not being depreciated:</i>     |  |                     |                  |                             |
| Land  | \$ 1,890,656                             | \$ -                | \$ -             | \$ 1,890,656                |
| Total capital assets, not being<br>depreciated    | <u>1,890,656</u>                         | <u>-</u>            | <u>-</u>         | <u>1,890,656</u>            |
| <i>Capital assets, being depreciated:</i>         |  |                     |                  |                             |
| Land improvements                                 | 498,469                                  | -                   | -                | 498,469                     |
| Buildings   | 7,200,539                                | -                   | -                | 7,200,539                   |
| Machinery and equipment                           | 1,712,115                                | 5,626               | (8,369)          | 1,709,372                   |
| Vehicles  | 2,175,011                                | 103,644             | (74,797)         | 2,203,858                   |
| Infrastructure                                    | <u>7,142,862</u>                         | <u>-</u>            | <u>-</u>         | <u>7,142,862</u>            |
| Total capital assets, being<br>depreciated        | <u>18,728,996</u>                        | <u>109,270</u>      | <u>(83,166)</u>  | <u>18,755,100</u>           |
| <i>Less: accumulated depreciation:</i>            |  |                     |                  |                             |
| Land improvements                                 | (301,383)                                | (15,590)            | -                | (316,973)                   |
| Buildings   | (5,060,747)                              | (103,380)           | -                | (5,164,127)                 |
| Machinery and equipment                           | (1,391,275)                              | (102,389)           | 8,369            | (1,485,295)                 |
| Vehicles  | (1,090,065)                              | (111,850)           | 74,797           | (1,127,118)                 |
| Infrastructure                                    | <u>(3,465,907)</u>                       | <u>(234,159)</u>    | <u>-</u>         | <u>(3,700,066)</u>          |
| Total accumulated depreciation                    | <u>(11,309,377)</u>                      | <u>(567,368)</u>    | <u>83,166</u>    | <u>(11,793,579)</u>         |
| Total capital assets, being<br>depreciated, net   | <u>7,419,619</u>                         | <u>(458,098)</u>    | <u>-</u>         | <u>6,961,521</u>            |
| Government-type activities capital<br>assets, net | <u>\$ 9,310,275</u>                      | <u>\$ (458,098)</u> | <u>\$ -</u>      | <u>\$ 8,852,177</u>         |

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

| <b><u>Business-Type Activities:</u></b>       | <u>Balance</u><br><u>12/31/04</u> | <u>Additions</u>    | <u>Disposals</u>    | <u>Balance</u><br><u>12/31/05</u> |
|---|-----------------------------------|---------------------|---------------------|-----------------------------------|
| <i>Capital assets, not being depreciated:</i> |                                   |                     |                     |                                   |
| Land  | \$ 8,374,270                      | \$ -                | \$ -                | \$ 8,374,270                      |
| Construction in progress                      | <u>182,971</u>                    | <u>-</u>            | <u>(182,971)</u>    | <u>-</u>                          |
| Total capital assets, not being depreciated   | <u>8,557,241</u>                  | <u>-</u>            | <u>(182,971)</u>    | <u>8,374,270</u>                  |
| <i>Capital assets, being depreciated:</i>     |                                   |                     |                     |                                   |
| Buildings                                     | 12,427,140                        | -                   | -                   | 12,427,140                        |
| Machinery and equipment                       | 2,145,648                         | -                   | -                   | 2,145,648                         |
| Vehicles                                      | 494,483                           | 168,268             | -                   | 662,751                           |
| Infrastructure                                | <u>20,740,671</u>                 | <u>244,724</u>      | <u>-</u>            | <u>20,985,395</u>                 |
| Total capital assets, being depreciated       | <u>35,807,942</u>                 | <u>412,992</u>      | <u>-</u>            | <u>36,220,934</u>                 |
| <i>Less: accumulated depreciation:</i>        |                                   |                     |                     |                                   |
| Buildings                                     | (4,541,902)                       | (195,349)           | -                   | (4,737,251)                       |
| Machinery and equipment                       | (1,722,332)                       | (41,476)            | -                   | (1,763,808)                       |
| Vehicles                                      | (320,643)                         | (45,033)            | -                   | (365,676)                         |
| Infrastructure                                | <u>(6,693,249)</u>                | <u>(371,631)</u>    | <u>-</u>            | <u>(7,064,880)</u>                |
| Total accumulated depreciation                | <u>(13,278,126)</u>               | <u>(653,489)</u>    | <u>-</u>            | <u>(13,931,615)</u>               |
| Total capital assets, being depreciated, net  | <u>22,529,816</u>                 | <u>(240,497)</u>    | <u>-</u>            | <u>22,289,319</u>                 |
| Business-type activities capital assets, net  | <u>\$ 31,087,057</u>              | <u>\$ (240,497)</u> | <u>\$ (182,971)</u> | <u>\$ 30,663,589</u>              |

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

**Governmental Activities:**

|  |                   |
|--|-------------------|
| General government                                   | \$ 24,188         |
| Security of persons and property                     | 142,143           |
| Public health and welfare                            | 14,396            |
| Transportation                                       | 288,070           |
| Community environment                                | 18,049            |
| Leisure time activity                                | <u>80,522</u>     |
| Total depreciation expense - governmental activities | <u>\$ 567,368</u> |

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

In prior years, the City has entered into capitalized lease agreements for the acquisition of heavy equipment. During 2005, the City entered into two capitalized leases for a backhoe and a street sweeper.

The terms of the lease agreement provides an option to purchase the equipment. This lease meets 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 and in the enterprise funds in an amount equal to the present value of the future minimum lease payments at the time of acquisition. 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 payments in 2005 totaled \$12,843 in the enterprise funds. In the enterprise funds, principal payments have been reclassified to reduce the capital lease liability, and interest payments have been reclassified as interest and fiscal charges expense.

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

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, 2005:

| Year Ending<br>December 31,                    | Governmental<br>Activities | Business-Type<br>Activities |
|--|----------------------------|-----------------------------|
| 2006   | \$ 18,440                  | \$ 72,740                   |
| 2007   | 18,440                     | 72,740                      |
| 2008   | <u>18,440</u>              | <u>57,270</u>               |
| Total future minimum lease payments            | 55,320                     | 202,750                     |
| Less: amount representing interest             | <u>(5,048)</u>             | <u>(18,416)</u>             |
| Present value of future minimum lease payments | <u>\$ 50,272</u>           | <u>\$ 184,334</u>           |

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 13 – LONG-TERM OBLIGATIONS**

A. During the fiscal year 2005, the following changes occurred in the County’s governmental long-term obligations:

|                                      | <u>Issue<br/>Date</u> | <u>Interest<br/>Rate</u> | <u>Balance at<br/>12/31/04</u> | <u>Additions</u>  | <u>Reductions</u>   | <u>Balance at<br/>12/31/05</u> | <u>Due<br/>Within<br/>One Year</u> |
|--------------------------------------|-----------------------|--------------------------|--------------------------------|-------------------|---------------------|--------------------------------|------------------------------------|
| <b>Governmental Activities:</b>      |                       |                          |                                |                   |                     |                                |                                    |
| <u>Ohio Public Works Commission:</u> |                       |                          |                                |                   |                     |                                |                                    |
| OPWC - Kelly Storm Sewer             | 05/08/98              | N/A                      | \$ 109,854                     | \$ -              | \$ (8,138)          | \$ 101,716                     | \$ 8,138                           |
| OPWC - CSO#2,3,4                     | 05/08/98              | N/A                      | 2,527                          | -                 | (2,527)             | -                              | -                                  |
| OPWC - Circle Drive                  | 12/1/00               | N/A                      | 26,651                         | -                 | (2,050)             | 24,601                         | 2,050                              |
| OPWC - CSO#5                         | 12/20/00              | N/A                      | <u>60,726</u>                  | <u>-</u>          | <u>(9,342)</u>      | <u>51,384</u>                  | <u>9,343</u>                       |
| Total OPWC loans                     |                       |                          | <u>199,758</u>                 | <u>-</u>          | <u>(22,057)</u>     | <u>177,701</u>                 | <u>19,531</u>                      |
| <u>Special Assessment Bonds:</u>     |                       |                          |                                |                   |                     |                                |                                    |
| Plaza Drive                          | 05/01/88              | 7.125%                   | 60,000                         | -                 | (15,000)            | 45,000                         | 15,000                             |
| Kelly Addition                       | 07/23/98              | 5.95%                    | <u>300,029</u>                 | <u>-</u>          | <u>(14,245)</u>     | <u>285,784</u>                 | <u>15,105</u>                      |
| Total special assessment bonds       |                       |                          | <u>360,029</u>                 | <u>-</u>          | <u>(29,245)</u>     | <u>330,784</u>                 | <u>30,105</u>                      |
| <u>Other Long-Term Obligations:</u>  |                       |                          |                                |                   |                     |                                |                                    |
| Capital lease obligation             | 04/25/05              |                          | -                              | 50,272            | -                   | 50,272                         | 15,797                             |
| Compensated absences payable         |                       |                          | <u>1,251,532</u>               | <u>166,714</u>    | <u>(125,415)</u>    | <u>1,292,831</u>               | <u>129,177</u>                     |
| Total other long-term obligations    |                       |                          | <u>1,251,532</u>               | <u>216,986</u>    | <u>(125,415)</u>    | <u>1,343,103</u>               | <u>144,974</u>                     |
| Total governmental activities        |                       |                          | <u>\$ 1,811,319</u>            | <u>\$ 216,986</u> | <u>\$ (176,717)</u> | <u>\$ 1,851,588</u>            | <u>\$ 194,610</u>                  |

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

**B.** During fiscal year 2005, the following changes occurred in the City’s business-type activities long-term obligations.

|                                     | <u>Issue<br/>Date</u> | <u>Interest<br/>Rate</u> | <u>Balance at<br/>12/31/04</u> | <u>Additions</u>  | <u>Reductions</u>   | <u>Balance at<br/>12/31/05</u> | <u>Amounts<br/>Due in<br/>One Year</u> |
|-------------------------------------|-----------------------|--------------------------|--------------------------------|-------------------|---------------------|--------------------------------|--|
| <b>Business-Type Activities:</b>    |                       |                          |                                |                   |                     |                                |  |
| <u>General Obligation Bonds:</u>    |                       |                          |                                |                   |                     |                                |  |
| Reservoir refunding bonds           | 12/01/89              | 3.80-4.90%               | \$ 1,390,000                   | \$ -              | \$ (210,000)        | \$ 1,180,000                   | \$ 215,000                             |
| Sewer refunding bonds               | 04/21/95              | 2.70-4.50%               | <u>155,000</u>                 | <u>-</u>          | <u>(155,000)</u>    | <u>-</u>                       | <u>-</u>                               |
| Total general obligation bonds      |                       |                          | <u>1,545,000</u>               | <u>-</u>          | <u>(365,000)</u>    | <u>1,180,000</u>               | <u>215,000</u>                         |
| <u>OWDA Loans Payable:</u>          |                       |                          |                                |                   |                     |                                |  |
| OWDA loan #3240                     | 10/15/00              | 4.55%                    | 946,668                        | -                 | (40,953)            | 905,715                        | 42,884                                 |
| OWDA loan #2262                     | 07/01/95              | 4.56%                    | <u>3,455,846</u>               | <u>-</u>          | <u>(263,221)</u>    | <u>3,192,625</u>               | <u>275,361</u>                         |
| Total OWDA loans                    |                       |                          | <u>4,402,514</u>               | <u>-</u>          | <u>(304,174)</u>    | <u>4,098,340</u>               | <u>318,245</u>                         |
| <u>OPWC loan:</u>                   |                       |                          |                                |                   |                     |                                |  |
| Fremont Street Pump Station         | 05/10/01              | N/A                      | 58,490                         | -                 | (4,680)             | 53,810                         | 4,677                                  |
| CSO #1, Wood County                 |                       | N/A                      | 38,776                         | -                 | (4,308)             | 34,468                         | 4,309                                  |
| Reservoir Rehabilitation            |                       | N/A                      | <u>-</u>                       | <u>68,515</u>     | <u>-</u>            | <u>68,515</u>                  | <u>3,479</u>                           |
| Total OPWC loans                    |                       |                          | <u>97,266</u>                  | <u>68,515</u>     | <u>(8,988)</u>      | <u>156,793</u>                 | <u>12,465</u>                          |
| <u>Other Long-Term Obligations:</u> |                       |                          |                                |                   |                     |                                |  |
| Compensated absences payable        |                       |                          | 291,896                        | 42,459            | (39,878)            | 294,477                        | 41,074                                 |
| Capital leases payable              | 4/25/05               |                          | <u>41,048</u>                  | <u>156,129</u>    | <u>(12,843)</u>     | <u>184,334</u>                 | <u>62,726</u>                          |
| Total other long-term obligations   |                       |                          | <u>332,944</u>                 | <u>198,588</u>    | <u>(52,721)</u>     | <u>478,811</u>                 | <u>103,800</u>                         |
| Total business-type activities      |                       |                          | <u>\$ 6,377,724</u>            | <u>\$ 267,103</u> | <u>\$ (730,883)</u> | <u>\$ 5,913,944</u>            | <u>\$ 649,510</u>                      |

**C.** The OWDA and OPWC loans are general obligations of the City, and will be repaid from the City’s general operating revenues. Principal and interest payments are recorded in the capital projects and enterprise funds. The OPWC loans are interest free, providing repayment remains current.

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

On April 20, 1995, the City defeased 1993 Sewage System Refunding and Improvement Bonds in the amount of \$6,160,000 with interest rates from 3.0% to 4.6%. The bonds are in an irrevocable trust with an escrow agent to provide for all future debt service payments, and considered defeased. The amount outstanding at December 31, 2005 is \$5,855,000.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

On December 31, 1997, the City defeased 1989 Reservoir #6 Refinanced Bonds in the amount of \$2,360,000 with interest rates from 6.45% to 7.05%. The proceeds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments. The amount outstanding at December 31, 2005 is \$1,045,000.

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

Capital leases will be paid from the fund that maintains custody of the related asset. The compensated absences liability will be paid from the fund from which the employees' salaries are paid.

The Ohio Public Works Commission (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 Reservoir Rehabilitation loan has not been fully disbursed to the City and therefore is not included in the amortization schedule below.

**D. A summary of the City's future debt service requirements as of December 31, 2005 follows:**

| Future<br>Payment<br>Due In | Business-Type<br>OWDA Loans |                    |                    | Business-Type<br>OPWC Loans | Governmental<br>OPWC Loans |
|-----------------------------|-----------------------------|--------------------|--------------------|-----------------------------|----------------------------|
|                             | Principal                   | Interest           | Total              | Principal Only              | Principal Only             |
| 2006                        | \$ 318,244                  | \$ 184,192         | \$ 502,436         | \$ 8,986                    | \$ 19,531                  |
| 2007                        | 332,965                     | 169,472            | 502,437            | 8,988                       | 19,530                     |
| 2008                        | 348,367                     | 154,069            | 502,436            | 8,988                       | 19,530                     |
| 2009                        | 364,482                     | 137,954            | 502,436            | 8,988                       | 19,530                     |
| 2010                        | 381,344                     | 121,094            | 502,438            | 8,987                       | 19,530                     |
| 2011-2015                   | 1,979,469                   | 323,795            | 2,303,264          | 36,322                      | 55,608                     |
| 2016-2020                   | 373,469                     | 49,512             | 422,981            | 7,019                       | 24,442                     |
| Total                       | <u>\$4,098,340</u>          | <u>\$1,140,088</u> | <u>\$5,238,428</u> | <u>\$ 88,278</u>            | <u>\$ 177,701</u>          |

| Future<br>Payment<br>Due In | Governmental<br>Special Assessment Bonds |                   |                   | Business-Type<br>General Obligation Bonds |                   |                     |
|-----------------------------|--|-------------------|-------------------|---|-------------------|---------------------|
|                             | Principal                                | Interest          | Total             | Principal                                 | Interest          | Total               |
| 2006                        | \$ 30,105                                | \$ 19,987         | \$ 50,092         | \$ 215,000                                | \$ 55,678         | \$ 270,678          |
| 2007                        | 31,017                                   | 18,007            | 49,024            | 225,000                                   | 45,895            | 270,895             |
| 2008                        | 31,942                                   | 16,014            | 47,956            | 235,000                                   | 35,545            | 270,545             |
| 2009                        | 18,007                                   | 13,879            | 31,886            | 245,000                                   | 25,500            | 270,500             |
| 2010                        | 19,095                                   | 12,792            | 31,887            | 260,000                                   | 12,740            | 272,740             |
| 2011-2015                   | 114,190                                  | 45,242            | 159,432           | -   | -                 | -                   |
| 2016-2018                   | 86,428                                   | 9,230             | 95,658            | -   | -                 | -                   |
| Total                       | <u>\$ 330,784</u>                        | <u>\$ 135,151</u> | <u>\$ 465,935</u> | <u>\$ 1,180,000</u>                       | <u>\$ 175,358</u> | <u>\$ 1,355,358</u> |



**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

- 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, 2005, the City's total voted debt margin was \$20,933,730, and the unvoted debt margin was \$10,953,977; both amounts include available funds of \$21,593.

**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 is a member of the Ohio Government Risk Management Plan. This Plan does not operate as a risk pool, but provides conventional insurance protection and reinsures these coverages 100 percent.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

The City has elected to offer employee medical insurance benefits through a plan provided by Paramount. An enrolled employee can choose between a PPO plan and an HMO plan. 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. Under the PPO plan, the out-of-pocket maximum extends to \$1,000 for single coverage and \$2,000 for family coverage for out-of-network expenses. The City pays 90% of the premium for the plans. For the HMO plan, each month the City contributes \$283.74 for single coverage and \$743.38 for family coverage. For the PPO plan, each month the City contributes \$330.87 for single coverage and \$869.49 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 an \$11.15 administrative fee to Guardian Dental per month per enrolled employee and reimburses Guardian Dental for actual claims incurred.

Prescription Drug Benefits are obtained through Express Scripts. Employees are required to make a co-pay of \$5 for generic prescriptions and \$10 for brand prescriptions. The City pays a \$2.35 administrative fee to Express Scripts per prescription and reimburses Express Scripts for actual prescription costs.

Vision insurance is provided through Custom Designed Benefits. The City pays a \$1.00 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 five years. There has been no significant reduction in amounts of insurance coverage from 2004.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 15 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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 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 and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2005 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$388,791, \$390,579, and \$424,041, respectively; 78.00% has been contributed for 2005 and 100% has been contributed for 2004 and 2003. \$85,554, representing the unpaid contribution for 2005, is recorded as a liability within the respective funds.

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

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 Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

Plan members are required to contribute 10.0% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for the years ended December 31, 2005, 2004, and 2003 were \$529,494, \$569,376, and \$500,527, respectively. The full amount has been contributed for 2004 and 2003. 71.28% for police and fire has been contributed for 2005 with the remainder of \$152,096 being reported as a liability in the respective funds.

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 1.00% and 6.00% annually for the next eight years and 4.00% annually after that.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109 as of December 31, 2005. The number of active participants for both plans used in the December 31, 2004 actuarial valuation was 355,287. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$114,772. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS's health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement 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. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits for police officers and firefighters were \$108,973 and \$82,366 respectively. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), was 13,812 for police and 10,528 for firefighters.

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

**Net Change in Fund Balance**

|   | <u>General</u>    |
|---|-------------------|
| Budget basis                                      | \$ 843,678        |
| Net adjustment for revenue accruals               | (1,396,607)       |
| Net adjustment for expenditure accruals           | 1,341,906         |
| Net adjustment for other financing sources/(uses) | (5,564)           |
| Adjustment for encumbrances                       | <u>86,541</u>     |
| GAAP basis  | <u>\$ 869,954</u> |

**NOTE 18 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2005.

**B. Litigation**

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE 19 - CONDUIT DEBT**

The City has issued conduit debt on behalf of the Fostoria Community Hospital for the purpose of acquiring property and equipment and for capital improvements. Fostoria Community Hospital will repay the debt through lease payments of the property financed. Upon repayment of the debt, the ownership of the acquired property transfers to the Fostoria Community Hospital. The aggregate amount on the debt outstanding as of December 31, 2005, is \$2,015,446. 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.

## **SUPPLEMENTAL DATA**

**CITY OF FOSTORIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

| FEDERAL GRANTOR/<br>SUB GRANTOR/<br>PROGRAM TITLE  | CFDA<br>NUMBER | PASS-THROUGH<br>GRANT<br>NUMBER | CASH (A)<br>FEDERAL<br>DISBURSEMENTS |
|--|----------------|---------------------------------|--------------------------------------|
| <b>U. S. DEPARTMENT OF HOUSING<br/>AND URBAN DEVELOPMENT<br/>PASSED THROUGH THE<br/>OHIO DEPARTMENT OF DEVELOPMENT</b> |                |                                 |                                      |
| (B) Small Cities Community Development Block Grant   | 14.228         | A-F-03-121-1                    | \$ 55,328                            |
| Small Cities Community Development Block Grant   | 14.228         | A-F-04-121-1                    | 4,636                                |
| Small Cities Community Development Block Grant   | 14.228         | A-D-04-121-1                    | 500,000                              |
| <b>Total U.S. Department of Housing and Urban Development</b>  |                |                                 | <u>559,964</u>                       |
| <b>U.S. DEPARTMENT OF JUSTICE<br/>PASSED THROUGH<br/>OHIO OFFICE OF CRIMINAL JUSTICE SERVICES</b>                      |                |                                 |                                      |
| Violence Against Women Formula Grant   | 16.588         | 2000-WF-VA5-8823                | 43,457                               |
| Violence Against Women Formula Grant   | 16.588         | 2002-DG-DOV-7494                | 6,273                                |
| <b>Total U.S. Department of Justice</b>  |                |                                 | <u>49,730</u>                        |
| <b>U. S. DEPARTMENT OF TRANSPORTATION<br/>FEDERAL AVIATION ADMINISTRATION<br/>PASSED THROUGH THE<br/>N/A</b>           |                |                                 |                                      |
| Airport Improvement Program  | 20.106         | 3-390035-0505                   | <u>255,963</u>                       |
| <b>U. S. ENVIRONMENTAL PROTECTION AGENCY<br/>PASSED THROUGH THE<br/>OHIO DEPARTMENT OF TRANSPORTATION</b>              |                |                                 |                                      |
| Brownsfield Assessment and Cleanup Cooperative Agreement   | 66.818         | BF965-270-01-0                  | <u>40,271</u>                        |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES<br/>PASSED THROUGH THE<br/>OHIO DEPARTMENT OF HEALTH</b>               |                |                                 |                                      |
| Rural Access to Emergency Devices  | 93.259         | H3D-RH-01239                    | 25,800                               |
| <b>Total U.S. Department of Health</b>   |                |                                 | <u>25,800</u>                        |
| <b>U.S. DEPARTMENT OF HOMELAND SECURITY<br/>PASSED THROUGH THE<br/>N/A</b>   |                |                                 |                                      |
| Public Assistance Grant  | 97.036         | FEMA-1580-DR-147-28014          | 36,760                               |
| <b>U.S. DEPARTMENT OF HOMELAND SECURITY<br/>PASSED THROUGH THE<br/>OHIO DEPARTMENT OF PUBLIC SAFETY</b>                |                |                                 |                                      |
| Assistance to Firefighters Grant   | 97.044         | EMW-2004-FG-12166               | 64,170                               |
| <b>Total U.S. Department of Homeland Security</b>  |                |                                 | <u>100,930</u>                       |
| <b>Total Federal Financial Assistance</b>  |                |                                 | <u>\$ 1,032,658</u>                  |

(A) The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes activity of the City's federal award programs. This schedule has been prepared on the cash basis of accounting.

(B) The City has established a revolving loan program to provide low-interest loans to businesses that are creating jobs and meet the other program requirements. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Expenditures of Federal Awards (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule. These loans are collateralized by mortgages on the property. At December 31, 2005, the gross amount of loans outstanding under this program were \$1,690,021. Of this amount \$250,000 was new revolving loans during December 31, 2005.

Note: Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditures of non-Federal matching funds is not included on the Schedule.





**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

---

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

Members of Council and Mayor  
City of Fostoria  
213 S. Main Street  
Fostoria, Ohio 44830

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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 14, 2006. As disclosed in Note 3 to the financial statements, the City has presented a prior period adjustment to restate net assets at January 1, 2005 due to fund reclassifications. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the management of the City in a separate letter dated June 14, 2006.

Members of Council and Mayor  
City of Fostoria

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which are described in the accompanying schedule of findings as item 2005-COF-001, 2005-COF-002 and 2005-COF-003. We also noted certain immaterial instance of noncompliance or other matters that we have reported to the management in a separate letter dated June 14, 2006.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
June 14, 2006



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its  
Major Program and Internal Control Over Compliance In  
Accordance With OMB Circular A-133**

Members of Council and Mayor  
City of Fostoria  
213 S. Main Street  
Fostoria, Ohio 44830

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 are applicable to its major federal program for the year ended December 31, 2005. As disclosed in Note 3 to the financial statements, the City has presented a prior period adjustment to restate net assets at January 1, 2005 due to fund reclassifications. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with *OMB Circular A-133*.

Members of Council and Mayor  
City of Fostoria

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
June 14, 2006

**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2005**

| <b>1. SUMMARY OF AUDITORS' RESULTS</b> |  |  |
|--|--|--|
| <i>(d)(1)(i)</i>                       | Type of Financial Statement Opinion  | Unqualified  |
| <i>(d)(1)(ii)</i>                      | Were there any material control weakness conditions reported at the financial statement level (GAGAS)?         | No   |
| <i>(d)(1)(ii)</i>                      | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No   |
| <i>(d)(1)(iii)</i>                     | Was there any reported non-compliance at the financial statement level (GAGAS)?                                | Yes  |
| <i>(d)(1)(iv)</i>                      | Were there any material internal control weakness conditions reported for major federal programs?              | No   |
| <i>(d)(1)(iv)</i>                      | Were there any other reportable internal control weakness conditions reported for major federal programs?      | No   |
| <i>(d)(1)(v)</i>                       | Type of Major Programs' Compliance Opinion   | Unqualified  |
| <i>(d)(1)(vi)</i>                      | Are there any reportable findings under §.510?   | No   |
| <i>(d)(1)(vii)</i>                     | Major Program  | Small Cities Community Development Block Grant, CFDA #14.228 |
| <i>(d)(1)(viii)</i>                    | Dollar Threshold: Type A/B Programs  | Type A: >\$300,000<br>Type B: all others                     |
| <i>(d)(1)(ix)</i>                      | Low Risk Auditee?  | No   |

**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005**

|   |
|---|
| <b>2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|---|

|                |              |
|----------------|--------------|
| Finding Number | 2005-COF-001 |
|----------------|--------------|

Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.

It was noted during the audit that at December 31, 2005, the City had negative cash balance in the following funds:

| <u>Fund</u> | <u>Excess</u> |
|-------------|---------------|
| CDBG FY03   | \$ 16,838     |

The City has spent monies not available to that fund and thus caused noncompliance. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend that the City comply with the Ohio Revised Code by properly expending monies only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the City should advance or transfer funds from the General Fund with proper Council approval.

*Client Response:* The City Auditor is attempting to monitor the City's budget more closely and prevent negative fund balances.

**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005**

| <b>2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |              |
|---|--------------|
| Finding Number  | 2005-COF-002 |

Ohio Revised Code Section 5705.39 in part requires that the total appropriations from each fund should not exceed estimated resources.

It was noted during the audit that the total appropriations exceeded total estimated resources in the following funds:

| <u>Fund</u>                               | <u>Excess</u> |
|---|---------------|
| <u>Nonmajor Funds</u>                     |               |
| Street Construction, Maintenance & Repair | \$ 47,181     |
| COPS                                      | 100,000       |
| FEMA Grant                                | 36,760        |
| Fire Department Grant                     | 62,927        |
| Airport Grant                             | 240,000       |
| CDBG GY03                                 | 17,716        |
| Charter Government                        | 550           |
| Termination Benefits                      | 5,085         |

With appropriations exceeding estimated resources the City is appropriating monies that are not in the treasury or in the process of collection that have been certified with the County Auditor. Thus, over appropriating may cause expenditures to increase and cause a deficit fund balance.

We recommend that the City comply with the Ohio Revised Code by keeping more accurate appropriations versus estimated resources records and amending the budget prior to year end. If it is determined that estimated resources will be greater than initially anticipated, the City should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources. In addition, the City should monitor its budgetary process on a regular basis.

*Client Response:* The City Auditor is attempting to prepare modifications to amended certificates throughout the year and certify them to the County Auditor in a more timely manner.

**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005**

|   |              |
|---|--------------|
| <b>2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b> |              |
| Finding Number  | 2005-COF-003 |

Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that for the year ended December 31, 2005 the City had expenditures exceeding appropriations in the following funds:

| <u>Fund/Department/Object</u> | <u>Excess</u> |
|-------------------------------|---------------|
| <b>Major Funds:</b>           |               |
| General Fund                  |               |
| Fire Fighting                 |               |
| Other                         | \$ 79,435     |
| Street Lights                 |               |
| Other                         | 1,562         |
| Cemetery                      |               |
| Other                         | 2,362         |
| Clerk of Court                |               |
| Personal Service              | 1,497         |
| Land & Building               |               |
| Other                         | 2,858         |
| Civil Service                 |               |
| Other                         | 137           |
| County Auditors               |               |
| Other                         | 4,785         |
| Engineering                   |               |
| Other                         | 6,987         |
| <b>Enterprise Funds:</b>      |               |
| Water Revenue                 |               |
| Other                         | 30,799        |
| Sewer Revenue                 |               |
| Other                         | 34,709        |
| Sewer Revenue Capital         |               |
| Other                         | 26            |



**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005**

|   |                            |
|---|----------------------------|
| <b>2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)</b> |                            |
| <u>Finding Number</u>   | 2005-COF-003 - (Continued) |

| <u>Fund/Department/Object</u>  | <u>Excess</u> |
|--------------------------------|---------------|
| <b>Nonmajor Funds:</b>         |               |
| Special Revenue Funds          |               |
| Street Maintenance & Repair    |               |
| Other                          | \$ 11,129     |
| State Highway Improvement      |               |
| Other                          | 32,185        |
| Operating                      |               |
| Other                          | 966           |
| Grants-Brownfield              |               |
| Other                          | 10,000        |
| Park & Rec.                    |               |
| Other                          | 691           |
| Prosecutor's City Contribution |               |
| Personal Service               | 1,765         |
| Police/Fire Pension            |               |
| Other                          | 1,679         |
| Capital Projects Funds         |               |
| Sewer & Water Extension        |               |
| Other                          | 14,300        |

With expenditures exceeding appropriations, the City expending monies that have not been appropriated and approved by City Council. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the City comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

*Client Response:* The Auditor will obtain additional supplemental appropriations and have them approved by City Council in a timely manner.

**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005**

**3. FINDINGS FOR FEDERAL AWARDS**

None

**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005**

| <b>Finding Number</b> | <b>Finding Summary</b>  | <b>Fully Corrected?</b> | <b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b> |
|-----------------------|---|-------------------------|--|
| 2004-COF-001          | Ohio Revised Code Section 5705.10 in part does not allow for the existence of a deficit fund balance.                 | No                      | The City Auditor is attempting to monitor the City's budget more closely. Finding reissued as 2005-COF-001.                      |
| 2004-COF-002          | Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated. | No                      | The City Auditor is attempting to monitor the City's budget more closely. Finding reissued as 2005-COF-003.                      |





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
SEPTEMBER 19, 2006**