

CITY OF FOSTORIA, OHIO

**BASIC
FINANCIAL STATEMENTS**

(Audited)

*FOR THE YEAR ENDED
DECEMBER 31, 2004*

DEB SOUDER, AUDITOR



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the City of Fostoria, Seneca County, prepared by Julian & Grube, Inc., for the audit period January 1, 2004 and December 31, 2004. 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

October 7, 2005

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CITY OF FOSTORIA, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

Members of Council and Mayor
City of Fostoria
213 S. Main Street
Fostoria, OH 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, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2005, 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.

The management’s discussion and analysis on pages 2 through 16 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.



Julian & Grube, Inc.
August 25, 2005

CITY OF FOSTORIA, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 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, 2004. 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 2004 are as follows:

- The total net assets of the City increased \$1,199,646. Net assets of governmental activities increased \$611,333 or 4.66% over 2003 and net assets of business-type activities increased \$588,343 or 2.31% over 2003.
- General revenues accounted for \$7,311,733 or 78.77% of total governmental activities revenue. Program specific revenues accounted for \$1,970,393 or 21.23% of total governmental activities revenue.
- The City had \$8,484,340 in expenses related to governmental activities; \$1,970,393 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$6,513,947 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$7,311,733.
- The general fund had revenues and other financing sources of \$7,139,204 in 2004. This represents a decrease of \$51,178 from 2003 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$6,906,247 in 2004, decreased \$317,273 from 2003. The net increase in fund balance for the general fund was \$232,927 or 152.52%.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2004 by \$588,343. 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 \$240,280 less than in the final budget and actual expenditures and other financing uses were \$338,672 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues stayed the same from the original to the final budget. Budgeted expenditures increased \$27,699 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, 2004
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 2004?" 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, 2004
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 19-24 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 basic proprietary fund financial statements can be found on pages 25-27 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. Agency funds are the City's only fiduciary fund type. 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 30-59 of this report.

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2004 and 2003:

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2004	2003	2004	2003	2004	2003
<u>Assets</u>						
Current and other assets	\$ 7,776,617	\$ 7,268,181	\$ 1,574,290	\$ 1,354,387	\$ 9,350,907	\$ 8,622,568
Capital assets	<u>9,310,275</u>	<u>9,267,672</u>	<u>31,087,057</u>	<u>31,485,382</u>	<u>40,397,332</u>	<u>40,753,054</u>
Total assets	<u>17,086,892</u>	<u>16,535,853</u>	<u>32,661,347</u>	<u>32,839,769</u>	<u>49,748,239</u>	<u>49,375,622</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,811,319	1,742,874	6,377,724	7,030,032	8,189,043	8,772,906
Other liabilities	<u>1,536,432</u>	<u>1,665,171</u>	<u>271,649</u>	<u>386,106</u>	<u>1,808,081</u>	<u>2,051,277</u>
Total liabilities	<u>3,347,751</u>	<u>3,408,045</u>	<u>6,649,373</u>	<u>7,416,138</u>	<u>9,997,124</u>	<u>10,824,183</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	8,750,488	8,632,528	25,001,229	24,742,770	33,751,717	33,375,298
Restricted	4,881,782	4,670,417	-	-	4,881,782	4,670,417
Unrestricted	<u>106,871</u>	<u>(175,137)</u>	<u>1,010,745</u>	<u>680,861</u>	<u>1,117,616</u>	<u>505,724</u>
Total net assets	<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>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$39,751,115. At year-end, net assets were \$13,739,141 and \$26,011,974 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 81.20% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$8,750,488 and \$25,001,229 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, 2004, 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, \$4,881,782, 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 \$106,871 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, 2004
UNAUDITED

The table below shows the changes in net assets for fiscal years 2004 and 2003.

	Change in Net Assets					
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues						
Program revenues:						
Charges for services	\$ 680,984	\$ 805,442	\$ 3,835,453	\$ 3,804,185	\$ 4,516,437	\$ 4,609,627
Operating grants and contributions	755,350	1,036,336	-	-	755,350	1,036,336
Capital grants and contributions	<u>534,059</u>	<u>-</u>	<u>7,909</u>	<u>-</u>	<u>541,968</u>	<u>-</u>
Total program revenues	<u>1,970,393</u>	<u>1,841,778</u>	<u>3,843,362</u>	<u>3,804,185</u>	<u>5,813,755</u>	<u>5,645,963</u>
General revenues:						
Property taxes	862,308	841,746	-	-	862,308	841,746
Income taxes	5,492,115	5,142,673	-	-	5,492,115	5,142,673
Unrestricted grants and entitlements	663,059	524,903	-	-	663,059	524,903
Investment earnings	30,397	30,412	-	-	30,397	30,412
Miscellaneous	<u>263,854</u>	<u>189,725</u>	<u>376,009</u>	<u>90,530</u>	<u>639,863</u>	<u>280,255</u>
Total general revenues	<u>7,311,733</u>	<u>6,729,459</u>	<u>376,009</u>	<u>90,530</u>	<u>7,687,742</u>	<u>6,819,989</u>
Total revenues	<u>9,282,126</u>	<u>8,571,237</u>	<u>4,219,371</u>	<u>3,894,715</u>	<u>13,501,497</u>	<u>12,465,952</u>
Expenses:						
General government	1,412,661	1,259,692	-	-	1,412,661	1,259,692
Security of persons and property	5,251,126	5,369,098	-	-	5,251,126	5,369,098
Public health and welfare	266,031	421,013	-	-	266,031	421,013
Transportation	1,051,607	1,008,454	-	-	1,051,607	1,008,454
Community environment	324,664	394,268	-	-	324,664	394,268
Leisure time activity	153,354	244,523	-	-	153,354	244,523
Other	4,986	15,715	-	-	4,986	15,715
Interest and fiscal charges	19,941	33,211	-	-	19,941	33,211
Water	-	-	2,013,482	1,929,274	2,013,482	1,929,274
Sewer	<u>-</u>	<u>-</u>	<u>1,803,999</u>	<u>2,034,574</u>	<u>1,803,999</u>	<u>2,034,574</u>
Total expenses	<u>8,484,370</u>	<u>8,745,974</u>	<u>3,817,481</u>	<u>3,963,848</u>	<u>12,301,851</u>	<u>12,709,822</u>
Transfers	<u>(186,453)</u>	<u>-</u>	<u>186,453</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	611,303	(174,737)	588,343	(69,133)	1,199,646	(243,870)
Net assets at beginning of year	<u>13,127,808</u>	<u>13,302,545</u>	<u>25,423,631</u>	<u>25,492,764</u>	<u>38,551,439</u>	<u>38,795,309</u>
Net assets at end of year	<u>\$ 13,739,111</u>	<u>\$ 13,127,808</u>	<u>\$ 26,011,974</u>	<u>\$ 25,423,631</u>	<u>\$ 39,751,085</u>	<u>\$ 38,551,439</u>

Governmental Activities

Governmental activities net assets increased \$611,303 in 2004.

CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

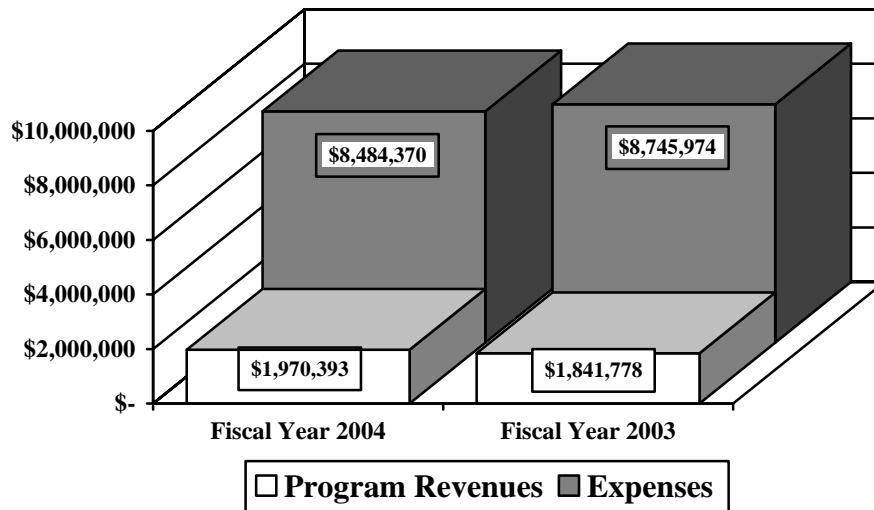
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,251,126 of the total expenses of the City. These expenses were partially funded by \$228,364 in direct charges to users of the services and \$14,317 in operating grants and contributions. Transportation expenses totaled \$1,051,607. Transportation expenses were partially funded by \$662,546 in operating grants and contributions.

The state and federal government contributed to the City a total of \$755,350 in operating grants and contributions and \$534,059 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$662,546 subsidized transportation programs, \$71,872 subsidized community environment programs and \$14,317 subsidized security of persons and property activities.

General revenues totaled \$7,311,733, and amounted to 78.77% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$6,354,423. 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 \$663,059.

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

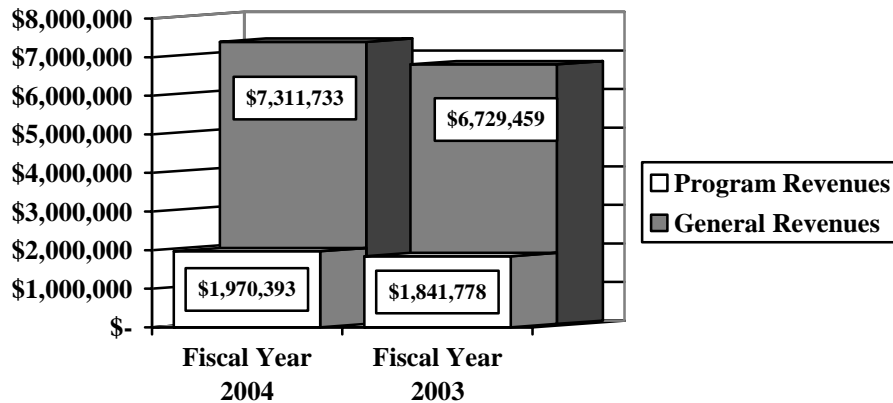
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program Expenses:				
General government	\$ 1,412,661	\$ 1,101,430	\$ 1,259,692	\$ 906,000
Security of persons and property	5,251,126	5,008,445	5,369,098	5,051,017
Public health and welfare	266,031	149,141	421,013	415,906
Transportation	1,051,607	389,061	1,008,454	382,650
Community environment	324,664	(297,158)	394,268	(116,691)
Leisure time activity	153,354	148,694	244,523	228,417
Other	4,986	4,986	15,715	15,715
Interest and fiscal charges	<u>19,911</u>	<u>9,348</u>	<u>33,211</u>	<u>21,182</u>
Total	<u>\$ 8,484,340</u>	<u>\$ 6,513,947</u>	<u>\$ 8,745,974</u>	<u>\$ 6,904,196</u>

The dependence upon general revenues for governmental activities is apparent, with 76.78% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



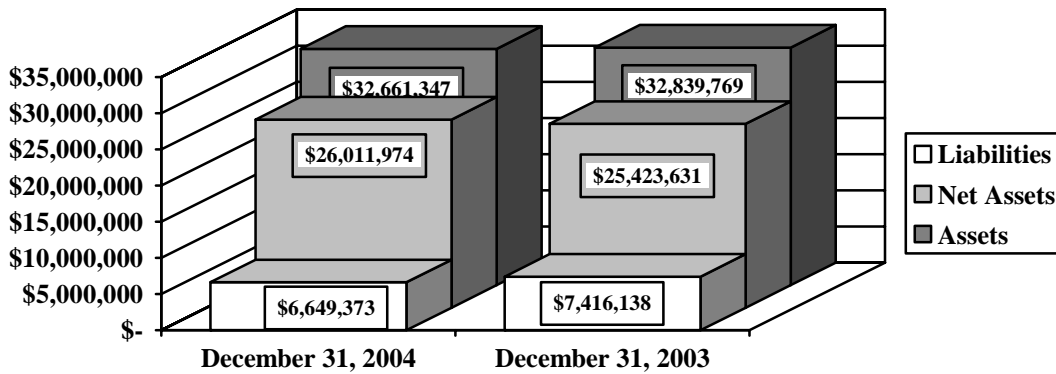
CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$3,843,362, general revenues of \$376,009, transfers in of \$186,453 and expenses of \$3,817,481 for 2004. 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 \$3,604,665 which is \$12,531 below last year's total of \$3,617,196. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/04</u>	Fund Balances <u>12/31/03</u>	Increase (Decrease)
Major funds:			
General	\$ 385,646	\$ 152,719	\$ 232,927
Other nonmajor governmental funds	<u>3,219,019</u>	<u>3,464,477</u>	<u>(245,458)</u>
Total	<u>\$ 3,604,665</u>	<u>\$ 3,617,196</u>	<u>\$ (12,531)</u>

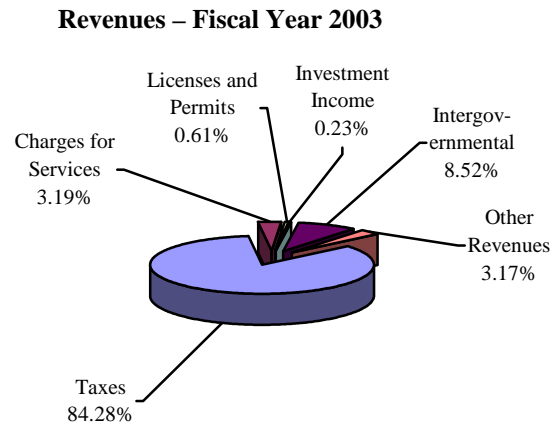
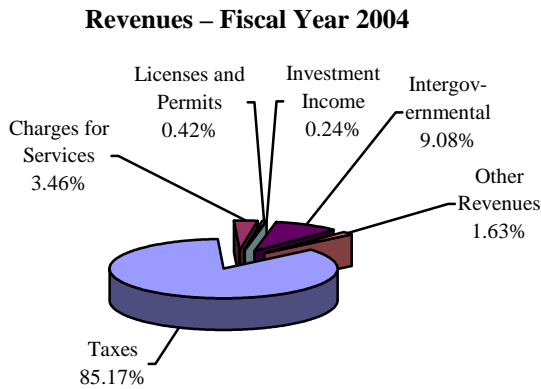
CITY OF FOSTORIA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

General Fund

The City's general fund balance increased \$232,927, primarily due to a decrease in transfers out to other funds in the amount of \$81,507. The table that follows assists in illustrating the revenues of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 6,079,621	\$ 6,018,788	1.01 %
Charges for services	247,042	227,731	8.48 %
Licenses and permits	29,675	43,914	(32.42) %
Investment income	17,268	16,480	4.78 %
Intergovernmental	648,655	608,150	6.66 %
Refunds and reimbursements	105,082	-	100.00 %
Other	<u>11,251</u>	<u>226,587</u>	(95.03) %
Total	<u>\$ 7,138,594</u>	<u>\$ 7,141,650</u>	(0.04) %

Tax revenue represents 85.17% of all general fund revenue. Tax revenue increased slightly by 1.01% over prior year. The decrease in licenses and permits although a big percentage was only \$14,239. The decrease in other revenue is due to a decrease in the collections of local revenue. All other revenue remained comparable to 2003.



CITY OF FOSTORIA, OHIO

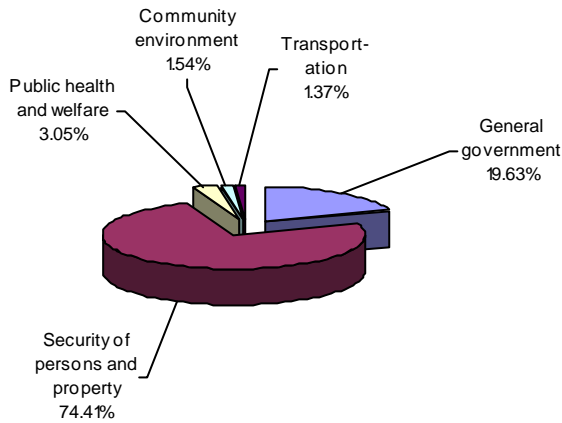
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

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

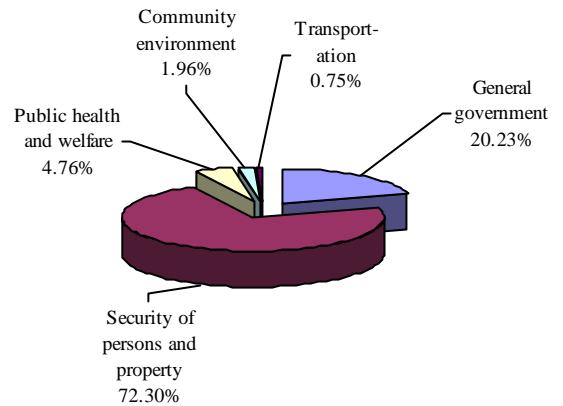
	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 1,172,188	\$ 1,256,099	(6.68) %
Security of persons and property	4,444,590	4,488,759	(0.98) %
Public health and welfare	182,032	295,218	(38.34) %
Transportation	81,886	46,685	75.40 %
Community environment	<u>91,741</u>	<u>121,610</u>	(24.56) %
Total	<u>\$ 5,972,437</u>	<u>\$ 6,208,371</u>	(3.80) %

The most significant increase was in the area of transportation. While the percentage changes for public health and welfare, transportation and community environment all appear to be significant the dollar amounts of these changes are not significant when compared to the whole of the City's expenditures. All other expenditures remained comparable to 2003. 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.

Expenditures - Fiscal Year 2004



Expenditures - Fiscal Year 2003



CITY OF FOSTORIA, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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 \$240,280 less than in the final budget and actual expenditures and other financing uses were \$338,672 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues stayed the same from the original to the final budget. Budgeted expenditures increased \$27,699 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 2004, the City had \$40,397,332 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$9,310,275 was reported in governmental activities and \$31,087,057 was reported in business-type activities. The following table shows fiscal 2004 balances compared to 2003:

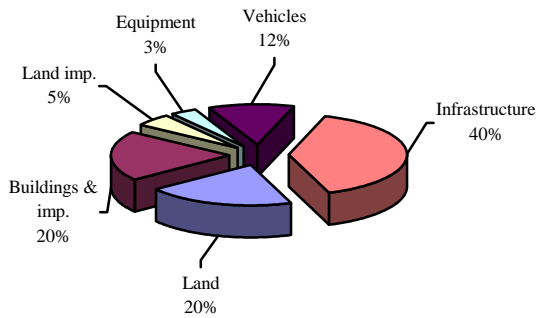
**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 1,890,656	\$ 1,890,656	\$ 8,374,270	\$ 8,374,270	\$ 10,264,926	\$ 10,264,926
Land improvements	475,056	212,677	-	-	475,056	212,677
Buildings and improvements	1,861,823	1,965,203	7,885,238	8,080,586	9,747,061	10,045,789
Equipment	320,840	446,613	423,316	429,610	744,156	876,223
Vehicles	1,084,945	1,074,585	173,840	184,863	1,258,785	1,259,448
Infrastructure	3,676,955	3,677,938	14,047,422	14,416,053	17,724,377	18,093,991
Construction in progress	-	-	182,971	-	182,971	-
Totals	\$ 9,310,275	\$ 9,267,672	\$31,087,057	\$ 31,485,382	\$ 40,397,332	\$ 40,753,054

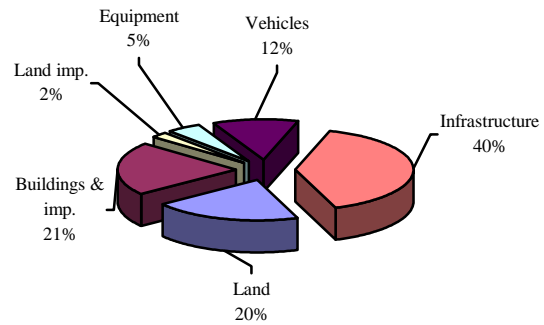
CITY OF FOSTORIA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

Capital Assets - Governmental Activities 2004



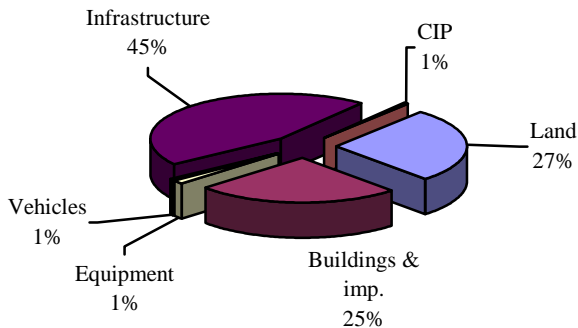
Capital Assets - Governmental Activities 2003



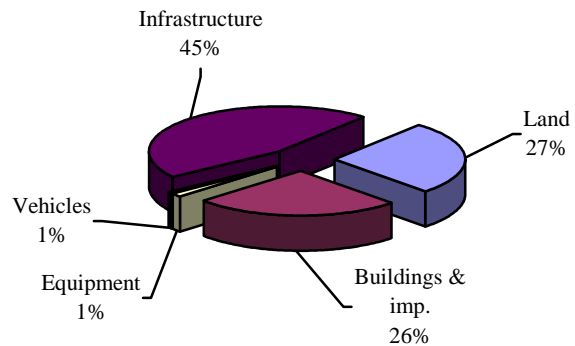
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 40% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2004 and 2003.

Capital Assets - Business-Type Activities 2004



Capital Assets - Business-Type Activities 2003



The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 45% of the City's total business-type capital assets. See Note 10 to the financial statements for more detail.

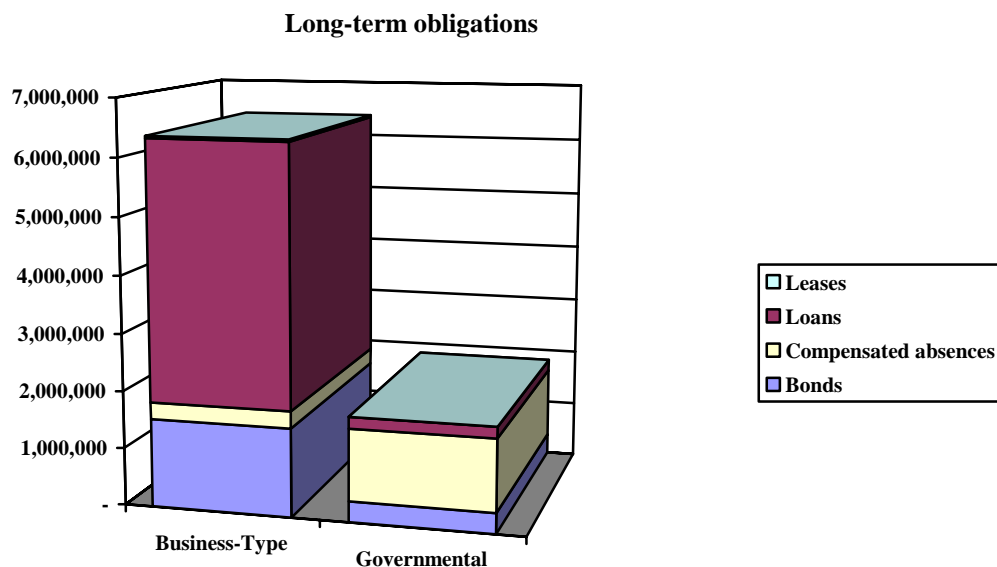
CITY OF FOSTORIA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

Governmental Activities		
	2004	2003
Compensated absences	\$1,251,532	\$1,107,730
OPWC loans	199,758	224,350
EMS Ambulance loan	-	22,381
Special assessment bonds	360,029	388,413
Total long-term obligations	\$1,811,319	\$1,742,874
Business-type Activities		
	2004	2003
General obligation bonds	\$1,545,000	\$1,890,000
OPWC loans	97,266	106,254
OWDA loans	4,402,514	4,693,239
Capital lease payable	41,048	53,119
Compensated absences	291,896	287,420
Total long-term obligations	\$6,377,724	\$7,030,032

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



CITY OF FOSTORIA, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED

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

Economic Factors and Next Year's Budgets and Rates

The City's current population as of the 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 2004 budget.

These economic factors were considered in preparing the City's budget for fiscal year 2004. Budgeted revenues and other financing sources in the general fund for fiscal year 2004 budget are \$6,940,929. 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 Ms. Deb Souder, Auditor, City of Fostoria, 213 S. Main Street, P.O. Box 1007, Fostoria, Ohio 44830.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF FOSTORIA, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 2,082,956	\$ 836,460	\$ 2,919,416
Cash and cash equivalents with fiscal agents	46,758	-	46,758
Receivables (net of allowances for uncollectibles):			
Income taxes	1,445,744	-	1,445,744
Real and other taxes	1,003,929	-	1,003,929
Accounts	101,573	607,359	708,932
Accrued interest	23	-	23
Special assessments	517,117	-	517,117
Intergovernmental	1,489,939	-	1,489,939
Loans receivable	446,416	-	446,416
Mortgage loan receivable	611,330	-	611,330
Materials and supplies inventory.	30,832	30,210	61,042
Deferred charges	-	67,670	67,670
Unamortized bond issue costs	-	32,591	32,591
Capital assets:			
Land and construction in progress.	1,890,656	8,557,241	10,447,897
Depreciable capital assets, net	7,419,619	22,529,816	29,949,435
Total capital assets, net	<u>9,310,275</u>	<u>31,087,057</u>	<u>40,397,332</u>
Total assets.	<u>17,086,892</u>	<u>32,661,347</u>	<u>49,748,239</u>
Liabilities:			
Accounts payable.	170,256	53,895	224,151
Contracts payable.	25,312	-	25,312
Accrued wages and benefits	121,458	33,920	155,378
Due to other governments	85,131	24,559	109,690
Deferred revenue.	916,783	-	916,783
Pension obligation payable.	217,136	52,404	269,540
Accrued interest payable.	356	106,871	107,227
Long-term liabilities:			
Due within one year	349,160	768,177	1,117,337
Due in more than one year	1,462,159	5,609,547	7,071,706
Total liabilities	<u>3,347,751</u>	<u>6,649,373</u>	<u>9,997,124</u>
Net assets:			
Invested in capital assets, net of related debt	8,750,488	25,001,229	33,751,717
Restricted for:			
Capital projects.	987,910	-	987,910
Debt service	92,022	-	92,022
Transportation projects.	511,449	-	511,449
Revolving loans	1,562,222	-	1,562,222
Permanent fund:			
Nonexpendable	19,186	-	19,186
Other purposes	1,708,993	-	1,708,993
Unrestricted.	<u>106,871</u>	<u>1,010,745</u>	<u>1,117,616</u>
Total net assets	<u>\$ 13,739,141</u>	<u>\$ 26,011,974</u>	<u>\$ 39,751,115</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 1,412,661	\$ 311,231	\$ -	\$ -
Security of persons and property.	5,251,126	228,364	14,317	-
Public health and welfare	266,031	110,275	6,615	-
Transportation	1,051,607	-	662,546	-
Community environment.	324,664	15,891	71,872	534,059
Leisure time activity.	153,354	4,660	-	-
Other	4,986	-	-	-
Interest and fiscal charges.	19,911	10,563	-	-
Total governmental activities	<u>8,484,340</u>	<u>680,984</u>	<u>755,350</u>	<u>534,059</u>
Business-Type Activities:				
Water	2,013,482	1,884,637	-	7,909
Sewer	<u>1,803,999</u>	<u>1,950,816</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>3,817,481</u>	<u>3,835,453</u>	<u>-</u>	<u>7,909</u>
Total primary government.	<u>\$ 12,301,821</u>	<u>\$ 4,516,437</u>	<u>\$ 755,350</u>	<u>\$ 541,968</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.	
Net assets at beginning of year.	
Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (1,101,430)	\$ -	\$ (1,101,430)
(5,008,445)	-	(5,008,445)
(149,141)	-	(149,141)
(389,061)	-	(389,061)
297,158	-	297,158
(148,694)	-	(148,694)
(4,986)	-	(4,986)
(9,348)	-	(9,348)
<u>(6,513,947)</u>	<u>-</u>	<u>(6,513,947)</u>
-	(120,936)	(120,936)
<u>-</u>	<u>146,817</u>	<u>146,817</u>
-	25,881	25,881
<u>(6,513,947)</u>	<u>25,881</u>	<u>(6,488,066)</u>
749,005	-	749,005
113,303	-	113,303
5,492,115	-	5,492,115
663,059	-	663,059
30,397	-	30,397
<u>263,854</u>	<u>376,009</u>	<u>639,863</u>
<u>7,311,733</u>	<u>376,009</u>	<u>7,687,742</u>
<u>(186,453)</u>	<u>186,453</u>	<u>-</u>
611,333	588,343	1,199,676
<u>13,127,808</u>	<u>25,423,631</u>	<u>38,551,439</u>
<u>\$ 13,739,141</u>	<u>\$ 26,011,974</u>	<u>\$ 39,751,115</u>

CITY OF FOSTORIA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 57,054	\$ 2,025,902	\$ 2,082,956
Cash and cash equivalents with fiscal agent	-	46,758	46,758
Receivables (net of allowance for uncollectibles):			
Income taxes.	1,445,744	-	1,445,744
Real and other taxes.	868,928	135,001	1,003,929
Accounts	-	101,573	101,573
Accrued interest	-	23	23
Special assessments.	-	517,117	517,117
Due from other funds	4,989	-	4,989
Due from other governments	221,230	1,268,709	1,489,939
Loans receivable	-	446,416	446,416
Mortgage loan receivable	-	611,330	611,330
Materials and supplies inventory	-	30,832	30,832
Total assets	\$ 2,597,945	\$ 5,183,661	\$ 7,781,606
Liabilities:			
Accounts payable	\$ 97,015	\$ 73,241	\$ 170,256
Contracts payable	-	25,312	25,312
Accrued wages and benefits.	112,827	8,631	121,458
Due to other funds	-	4,989	4,989
Due to other governments.	63,333	21,798	85,131
Deferred revenue	1,743,406	1,809,253	3,552,659
Pension obligation payable	195,718	21,418	217,136
Total liabilities	2,212,299	1,964,642	4,176,941
Fund Balances:			
Reserved for encumbrances.	40,688	1,393,713	1,434,401
Reserved for materials and supplies inventory	-	30,832	30,832
Reserved for loans	-	446,416	446,416
Reserved for mortgages receivable	-	611,330	611,330
Reserved for debt service.	-	20,979	20,979
Unreserved, undesignated, reported in:			
General fund.	344,958	-	344,958
Special revenue funds.	-	271,016	271,016
Capital projects funds.	-	425,547	425,547
Permanent fund	-	19,186	19,186
Total fund balances	385,646	3,219,019	3,604,665
Total liabilities and fund balances.	\$ 2,597,945	\$ 5,183,661	\$ 7,781,606

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, 2004

Total governmental fund balances		\$ 3,604,665
 <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.		9,310,275
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 96,333	
Income taxes	777,699	
Special assessments	504,334	
Intergovernmental revenues	<u>1,257,510</u>	
Total		2,635,876
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	360,029	
Accrued interest payable	356	
Compensated absences	1,251,532	
OPWC loans payable	<u>199,758</u>	
Total		<u>(1,811,675)</u>
 Net assets of governmental activities		 <u><u>\$ 13,739,141</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Municipal income taxes	\$ 5,348,671	\$ -	\$ 5,348,671
Property and other taxes	730,950	110,370	841,320
Charges for services	247,042	227,165	474,207
Licenses and permits	29,675	-	29,675
Fines and forfeitures	-	50,206	50,206
Intergovernmental	648,655	770,672	1,419,327
Special assessments	-	62,793	62,793
Investment income	17,268	13,129	30,397
Refunds and reimbursements	105,082	218,014	323,096
Other	11,251	55,677	66,928
Total revenues	<u>7,138,594</u>	<u>1,508,026</u>	<u>8,646,620</u>
Expenditures:			
Current:			
General government	1,172,188	90,224	1,262,412
Security of persons and property	4,444,590	420,690	4,865,280
Public health and welfare	182,032	85,633	267,665
Transportation	81,886	641,902	723,788
Community environment	91,741	235,421	327,162
Leisure time activity	-	73,572	73,572
Other	-	4,986	4,986
Capital outlay	-	1,023,233	1,023,233
Debt service:			
Principal retirement	-	75,357	75,357
Interest and fiscal charges	-	24,915	24,915
Total expenditures	<u>5,972,437</u>	<u>2,675,933</u>	<u>8,648,370</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,166,157</u>	<u>(1,167,907)</u>	<u>(1,750)</u>
Other financing sources (uses):			
Proceeds from sale of capital assets	610	-	610
Transfers in	-	1,449,028	1,449,028
Transfers out	(933,840)	(526,579)	(1,460,419)
Total other financing sources (uses)	<u>(933,230)</u>	<u>922,449</u>	<u>(10,781)</u>
Net change in fund balances	232,927	(245,458)	(12,531)
Fund balances at beginning of year	<u>152,719</u>	<u>3,464,477</u>	<u>3,617,196</u>
Fund balances at end of year.	<u>\$ 385,646</u>	<u>\$ 3,219,019</u>	<u>\$ 3,604,665</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, 2004

Net change in fund balances - total governmental funds \$ (12,531)

*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. This is the amount by which capital outlays (\$723,643) exceeded depreciation expense (\$651,418) in the current period.	72,225
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(29,622)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	634,896
Repayment of bonds, loans and capital lease principal are expenditures in the governmental funds, but the repayments reduces long-term liabilities in the statement of net assets.	75,357
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	5,004
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. These expenses are exclusive of internal service funds activity.	(143,802)
An internal service fund is used by management to charge the costs of the service garage to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	9,806

Change in net assets of governmental activities **\$ 611,333**

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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 5,000,000	\$ 5,000,000	\$ 5,326,745	\$ 326,745
Property and other taxes	763,751	763,751	730,312	(33,439)
Charges for services	1,961,750	1,961,750	1,578,775	(382,975)
Licenses and permits.	46,135	46,135	31,951	(14,184)
Intergovernmental	533,846	533,846	648,655	114,809
Investment income	15,000	15,000	17,269	2,269
Refunds and reimbursements.	108,765	108,765	105,082	(3,683)
Other	11,683	11,683	11,251	(432)
Total revenues.	<u>8,440,930</u>	<u>8,440,930</u>	<u>8,450,040</u>	<u>9,110</u>
Expenditures:				
Current:				
General government:				
Legislative and executive.	2,685,401	2,712,551	2,163,962	548,589
Judicial.	378,720	378,720	386,015	(7,295)
Security of persons and property	4,439,260	4,439,809	4,599,637	(159,828)
Public health and welfare.	250,284	250,284	192,769	57,515
Transportation	47,183	47,183	83,027	(35,844)
Community environment	105,424	105,424	101,049	4,375
Total expenditures	<u>7,906,272</u>	<u>7,933,971</u>	<u>7,526,459</u>	<u>407,512</u>
Excess (deficiency) of revenues over (under) expenditures	<u>534,658</u>	<u>506,959</u>	<u>923,581</u>	<u>416,622</u>
Other financing sources (uses):				
Proceeds from sale of capital assets.	-	-	610	610
Transfers in.	250,000	250,000	-	(250,000)
Transfers out	(865,000)	(865,000)	(933,840)	(68,840)
Total other financing sources (uses)	<u>(615,000)</u>	<u>(615,000)</u>	<u>(933,230)</u>	<u>(318,230)</u>
Net change in fund balance	(80,342)	(108,041)	(9,649)	98,392
Fund balance at beginning of year	(145,759)	(145,759)	(145,759)	-
Prior year encumbrances appropriated	<u>80,724</u>	<u>80,724</u>	<u>80,724</u>	<u>-</u>
Fund balance at end of year.	<u>\$ (145,377)</u>	<u>\$ (173,076)</u>	<u>\$ (74,684)</u>	<u>\$ 98,392</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2004

	Business-Type Activities -Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 327,402	\$ 509,058	\$ 836,460
Receivables (net of allowance for uncollectibles):			
Accounts	309,824	297,535	607,359
Unamortized bond issue costs	15,770	16,821	32,591
Deferred charges.	67,670	-	67,670
Materials and supplies inventory	13,657	16,553	30,210
Total current assets	734,323	839,967	1,574,290
Noncurrent assets:			
Capital assets:			
Land and construction in progress	8,121,300	435,941	8,557,241
Depreciable capital assets, net	9,818,832	12,710,984	22,529,816
Total capital assets, net	17,940,132	13,146,925	31,087,057
Total assets.	18,674,455	13,986,892	32,661,347
Liabilities:			
Current liabilities:			
Accounts payable	18,737	35,158	53,895
Accrued wages and benefits.	19,153	14,767	33,920
Due to other governments.	12,836	11,723	24,559
Pension obligation payable	30,071	22,333	52,404
Accrued interest payable	27,484	79,387	106,871
Current portion of compensated absences	26,485	50,687	77,172
Current portion of refunding bonds.	210,000	155,000	365,000
Current portion of capital lease obligation	12,843	-	12,843
Current portion of OWDA loans	40,953	263,221	304,174
Current portion of OPWC loans	-	8,988	8,988
Total current liabilities	398,562	641,264	1,039,826
Long-term liabilities:			
Refunding bonds	1,180,000	-	1,180,000
Capital lease obligation	28,205	-	28,205
OWDA loans.	905,715	3,192,625	4,098,340
OPWC loans	-	88,278	88,278
Compensated absences.	126,858	87,866	214,724
Total long-term liabilities.	2,240,778	3,368,769	5,609,547
Total liabilities	2,639,340	4,010,033	6,649,373
Net assets:			
Invested in capital assets, net of related debt. . . .	15,562,416	9,438,813	25,001,229
Unrestricted	472,699	538,046	1,010,745
Total net assets	\$ 16,035,115	\$ 9,976,859	26,011,974

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, 2004

	Business-Type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total	Activities - Internal Service Fund
Operating revenues:				
Charges for services	\$ 1,884,637	\$ 1,950,816	\$ 3,835,453	\$ 133,530
Refunds and reimbursements	165,155	119,289	284,444	-
Other	19,284	72,904	92,188	-
Total operating revenues	<u>2,069,076</u>	<u>2,143,009</u>	<u>4,212,085</u>	<u>133,530</u>
Operating expenses:				
Personal services	1,097,457	898,852	1,996,309	53,629
Contract services	29,985	71,111	101,096	66,779
Materials and supplies	248,454	176,897	425,351	605
Utilities	135,466	167,746	303,212	2,711
Depreciation	342,392	310,277	652,669	-
Other	9,966	-	9,966	-
Total operating expenses	<u>1,863,720</u>	<u>1,624,883</u>	<u>3,488,603</u>	<u>123,724</u>
Operating income	<u>205,356</u>	<u>518,126</u>	<u>723,482</u>	<u>9,806</u>
Nonoperating revenues (expenses):				
Intergovernmental	7,909	-	7,909	-
Interest expense and fiscal charges	(149,762)	(179,116)	(328,878)	-
Loss on disposal of capital assets	(623)	-	(623)	-
Total nonoperating revenues (expenses)	<u>(142,476)</u>	<u>(179,116)</u>	<u>(321,592)</u>	<u>-</u>
Income before transfers and capital contributions . .	62,880	339,010	401,890	9,806
Transfers in	7,083	4,308	11,391	-
Capital contributions	-	175,062	175,062	-
Changes in net assets	69,963	518,380	588,343	9,806
Net assets at beginning of year	<u>15,965,152</u>	<u>9,458,479</u>	<u>25,423,631</u>	<u>(9,806)</u>
Net assets at end of year	<u>\$ 16,035,115</u>	<u>\$ 9,976,859</u>	<u>\$ 26,011,974</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	Activities - Internal Service Fund
Cash flows from operating activities:				
Cash received from customers	\$ 1,852,853	\$ 1,925,799	\$ 3,778,652	\$ 133,530
Cash received from other operations.	184,439	192,193	376,632	-
Cash payments for personal services	(1,098,353)	(947,990)	(2,046,343)	(56,902)
Cash payments for contract services	(39,509)	(75,436)	(114,945)	(73,312)
Cash payments for materials and supplies	(251,699)	(206,483)	(458,182)	(605)
Cash payments for utilities.	(135,466)	(167,746)	(303,212)	(2,711)
Cash payments for other expenses.	(9,966)	-	(9,966)	-
Net cash provided by operating activities.	<u>502,299</u>	<u>720,337</u>	<u>1,222,636</u>	<u>-</u>
Cash flows from noncapital financing activities:				
Cash received from transfers in	7,083	4,308	11,391	-
Cash received from intergovernmental revenues	<u>7,909</u>	<u>-</u>	<u>7,909</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>14,992</u>	<u>4,308</u>	<u>19,300</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(18,954)	(60,951)	(79,905)	-
Principal retirement on bonds	(239,109)	(405,604)	(644,713)	-
Interest paid on bonds	(119,514)	(179,879)	(299,393)	-
Principal retirement on capital lease.	(12,071)	-	(12,071)	-
Interest retirement on capital lease	<u>(3,399)</u>	<u>-</u>	<u>(3,399)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(393,047)</u>	<u>(646,434)</u>	<u>(1,039,481)</u>	<u>-</u>
Net increase in cash and cash equivalents.	124,244	78,211	202,455	-
Cash and cash equivalents at beginning of year. . .	203,158	430,847	634,005	-
Cash and cash equivalents at end of year	<u>\$ 327,402</u>	<u>\$ 509,058</u>	<u>\$ 836,460</u>	<u>\$ -</u>

- - continued

CITY OF FOSTORIA, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	Activities - Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 205,356	\$ 518,126	\$ 723,482	\$ 9,806
Adjustments:				
Depreciation	342,392	310,277	652,669	-
Changes in assets and liabilities:				
Decrease in materials and supplies inventory	2,518	2,814	5,332	-
Increase in accounts receivable	(31,784)	(25,017)	(56,801)	-
Decrease in accounts payable	(15,187)	(36,725)	(51,912)	(6,533)
Decrease in accrued wages and benefits	(31,698)	(36,355)	(68,053)	(2,016)
Decrease in pension obligations payable	(1,585)	(9,131)	(10,716)	(1,257)
Increase in due to other governments	12,436	11,723	24,159	-
Increase (decrease) in compensated absences payable	19,851	(15,375)	4,476	-
Net cash provided by operating activities	<u>\$ 502,299</u>	<u>\$ 720,337</u>	<u>\$ 1,222,636</u>	<u>\$ -</u>
Noncash investing, capital and financing activities:				
Contributions of capital assets	<u>\$ -</u>	<u>\$ 175,062</u>	<u>\$ 175,062</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 DECEMBER 31, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 17,227	\$ 13,976
Cash in segregated accounts	-	62,990
Due from other governments	-	<u>10,625</u>
Total assets.	<u>17,227</u>	<u><u>\$ 87,591</u></u>
Liabilities:		
Due to other governments	-	\$ 26,481
Undistributed monies	-	<u>61,110</u>
Total liabilities	<u>-</u>	<u><u>\$ 87,591</u></u>
Net assets:		
Held in trust for other purposes	<u>17,227</u>	
Total net assets	<u><u>\$ 17,227</u></u>	

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, 2004**

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$ 255
Total Additions.	<u>255</u>
Changes in Net Assets	255
Net assets at the beginning of the year.	<u>16,972</u>
Net assets at the end of the year	<u>\$ 17,227</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, 2004

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, 2004

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, 2004, 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 activities of the internal service funds are eliminated to avoid "doubling up" revenues and expenses. 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, 2004

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. The internal service funds are presented in a single column on the face of the proprietary fund financial statements. 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, water and refuse operations and operating expenses for the internal service fund include claims and administrative expenses. 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. Proprietary funds are classified as either enterprise or internal service.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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:

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

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on the operations of the service garage. The City eliminated this fund at December 31, 2004.

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 a private-purpose trust fund 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, 2004

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, 2004, but which were levied to finance year 2005 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, 2004

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 2003.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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 2004, 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, 2004.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2004 amounted to \$17,268, all of which was 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 Hancock County Auditor maintains undistributed permissive tax received. The balance of this account at December 31, 2004 was \$46,758. 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, 2004

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 has changed its threshold from \$500 to \$5,000, see Note 10 for details. The City's infrastructure consists of bridges, curbs, sidewalks, storm sewers, streets, alleys, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Improvements to land	15 - 20 years	15 - 20 years
Buildings	20 - 45 years	50 years
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, 2004**

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, compensated absences, and contractually required pension contributions 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, 2004**

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 and 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, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

1. The following funds had appropriations in excess of estimated resources for the year ended December 31, 2004, in noncompliance with Ohio Revised Code Section 5705.39:

<u>Fund/Function</u>	<u>Excess</u>
<u>Nonmajor Funds</u>	
Street Maintenance & Repair	\$ 3,794
Grants - Airport	234,447
Grants - Brownfield	290,000
Grants - CDBG-ED	500,000
Emergency Medical Services	33,132

2. The following funds had expenditures in excess of appropriations for the year ended December 31, 2004, in noncompliance with Ohio Revised Code Section 5705.41(B):

<u>Fund/Department/Object</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Major Funds:			
<u>General Fund</u>			
Police Department			
Personal Services	\$ 2,328,594	\$ 2,386,089	57,495
Other	166,231	180,292	14,061
Fire Fighting			
Personal Services	1,574,852	1,576,975	2,123
General Security			
Personal Services	76,800	89,763	12,963
Legal Department			
Personal Services	147,612	155,925	8,313
City Income Tax Department			
Other	171,213	1,101,761	930,548
Clerk of Court			
Other	17,623	83,201	65,578
Land & Building			
Personal Services	4,500	27,102	22,602
County Auditors			
Other	19,750	26,321	6,571
Legal Assistants			
Other	34,547	38,672	4,125

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

<u>Fund/Department/Object</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Major Funds:			
<u>Enterprise Funds</u>			
Water Revenue			
General	\$ 896,856	\$ 1,090,550	\$ 193,694
Sewer Revenue			
General	920,777	947,990	27,213
Sewer Plant Replacement			
Other	228,596	275,738	47,142
Nonmajor Funds:			
<u>Special Revenue Funds</u>			
Street Maintenance			
General	438,881	467,205	28,324
Other	203,050	206,845	3,795
State Highway Fund			
Other	18,411	51,649	33,238
Grants CDBG-ED			
Other	500,000	1,000,000	500,000
Fostoria Revolving Loan			
Other	325,910	819,013	493,103
City Cleanup			
Other	217	9,453	9,236
Emergency Medical Services			
General	197,510	270,957	73,447
<u>Capital Projects Funds</u>			
Veteran's Memorial Chapel			
Other	68,884	174,293	105,409
Sewer & Water Extension			
Other	353,355	430,607	77,252

Appropriations exceeded estimated resources in several funds throughout the year and at year end contrary to Ohio Revised Code §§ 5705.41 (B).

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

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

Interim monies may be deposited or invested in the following:

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

Cash in Segregated Accounts: At year-end, \$62,990 as 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 combined balance sheet as "Cash in Segregated Accounts".

Cash with Fiscal Agent: At December 31, 2004, \$46,758 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 "Cash and Cash Equivalents with Fiscal Agent".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the City's deposits was \$1,653,652 and the bank balance was \$1,740,472. Both amounts include payroll clearance accounts, cash in segregated accounts, and amounts held by fiscal agents. Of the bank balance:

1. \$162,990 was covered by federal depository insurance; and
2. \$1,577,482 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments: The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

	<u>Fair Value</u>
Amount not subject to categorization: STAR Ohio	<u>\$ 1,406,715</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

The classification of cash and cash equivalents on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 2,950,619	\$ -
Investments of the cash management pool:		
STAR Ohio	(1,406,715)	1,406,715
Cash in segregated accounts	62,990	-
Cash with fiscal agent	46,758	-
GASB Statement No. 3	\$ 1,653,652	\$ 1,406,715

NOTE 5 - INTERFUND TRANSFERS

- A. Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported in the fund financial statements:

		Transfers from		
Transfers to	General	Nonmajor Special Revenue	Nonmajor Capital Projects	Total
Nonmajor Special Revenue	\$ 276,752	\$ 522,271	\$ -	\$ 799,023
Nonmajor Capital Projects	650,016	-	-	650,016
Water Fund	7,072	-	-	7,072
Sewer Fund	-	-	4,308	4,308
	\$ 933,840	\$ 522,271	\$ 4,308	\$ 1,460,419

Other governmental funds had transfers of \$526,579 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, 2004

NOTE 5 - INTERFUND TRANSFERS - (Continued)

B. Interfund loans consisted of the following at December 31, 2004, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 4,989

The interfund loans are 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 2004 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, 2004 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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

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.

The assessed values upon which the 2004 taxes were collected are as follows:

	Seneca County	Wood County	Hancock County
Real Property - 2003 Valuation			
Residential/agricultural	\$ 56,922,570	\$ 8,247,110	\$ 26,999,040
Commercial/industrial	32,427,260	6,307,070	9,445,230
Public utilities	146,300	-	16,160
Totals	<u>89,496,130</u>	<u>14,554,180</u>	<u>36,460,430</u>
Tangible Personal Property - 2003 Valuation			
General	\$ 44,137,765	\$ 3,351,168	\$ 8,558,715
Public utilities	5,339,630	592,940	1,504,320
Totals	<u>\$ 49,477,395</u>	<u>\$ 3,944,108</u>	<u>\$ 10,063,035</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 2004 was \$5,348,671 as reported on the fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services), 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, 2004, as well as intended to finance fiscal 2004 operations.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 8 - RECEIVABLES - (Continued)

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

Governmental Activities:

Income taxes	\$1,445,744
Real and other taxes	1,003,929
Accounts	101,573
Accrued interest	23
Special assessments	517,117
Due from other governments	1,489,939
Loans	446,416
Mortgage loans	611,330

Business-Type Activities:

Accounts	607,359
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Receivables have been disaggregated on the face of the BFS. The only receivables not expected to be collected within the subsequent year are the special assessments, 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 2004, there were loans outstanding to businesses with a total principal balance due of \$446,416.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 10 - CAPITAL ASSETS

B. Capital asset activity for the year ended December 31, 2004, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,890,656	\$ -	\$ -	\$ 1,890,656
Total capital assets, not being depreciated	<u>1,890,656</u>	<u>-</u>	<u>-</u>	<u>1,890,656</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	6,922,570	-	-	6,922,570
Buildings and improvements	498,469	277,969	-	776,438
Machinery and equipment	1,773,658	14,693	(76,236)	1,712,115
Vehicles	2,379,674	175,210	(379,873)	2,175,011
Infrastructure	<u>6,887,091</u>	<u>255,771</u>	<u>-</u>	<u>7,142,862</u>
Total capital assets, being depreciated	<u>18,461,462</u>	<u>723,643</u>	<u>(456,109)</u>	<u>18,728,996</u>
<i>Less: accumulated depreciation:</i>				
Improvements other than buildings	(285,793)	(15,590)	-	(301,383)
Buildings	(4,957,367)	(103,380)	-	(5,060,747)
Machinery and equipment	(1,327,045)	(137,756)	73,526	(1,391,275)
Vehicles	(1,305,088)	(137,938)	352,961	(1,090,065)
Infrastructure	<u>(3,209,153)</u>	<u>(256,754)</u>	<u>-</u>	<u>(3,465,907)</u>
Total accumulated depreciation	<u>(11,084,446)</u>	<u>(651,418)</u>	<u>426,487</u>	<u>(11,309,377)</u>
Total capital assets, being depreciated, net	<u>7,377,016</u>	<u>72,225</u>	<u>(29,622)</u>	<u>7,419,619</u>
Government-type activities capital assets, net	<u>\$ 9,267,672</u>	<u>\$ 72,225</u>	<u>\$ (29,622)</u>	<u>\$ 9,310,275</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Business-Type Activities:</u>	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 8,374,270	\$ -	\$ -	\$ 8,374,270
Construction in progress	<u>-</u>	<u>182,971</u>	<u>-</u>	<u>182,971</u>
Total capital assets, not being depreciated	<u>8,374,270</u>	<u>182,971</u>	<u>-</u>	<u>8,557,241</u>
<i>Capital assets, being depreciated:</i>				
Buildings	12,427,140	-	-	12,427,140
Machinery and equipment	2,144,810	45,402	(44,564)	2,145,648
Vehicles	467,889	26,594	-	494,483
Infrastructure	<u>20,740,671</u>	<u>-</u>	<u>-</u>	<u>20,740,671</u>
Total capital assets, being depreciated	<u>35,780,510</u>	<u>71,996</u>	<u>(44,564)</u>	<u>35,807,942</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(4,346,554)	(195,348)	-	(4,541,902)
Machinery and equipment	(1,715,200)	(51,073)	43,941	(1,722,332)
Vehicles	(283,026)	(37,617)	-	(320,643)
Infrastructure	<u>(6,324,618)</u>	<u>(368,631)</u>	<u>-</u>	<u>(6,693,249)</u>
Total accumulated depreciation	<u>(12,669,398)</u>	<u>(652,669)</u>	<u>43,941</u>	<u>(13,278,126)</u>
Total capital assets, being depreciated, net	<u>23,111,112</u>	<u>(580,673)</u>	<u>(623)</u>	<u>22,529,816</u>
Business-type activities capital assets, net	<u>\$ 31,485,382</u>	<u>\$ (397,702)</u>	<u>\$ (623)</u>	<u>\$ 31,087,057</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 10 - CAPITAL ASSETS - (Continued)

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

Governmental Activities:

General government	\$ 36,136
Security of persons and property	165,957
Public health and welfare	8,935
Transportation	359,313
Community environment	1,295
Leisure time activity	<u>79,782</u>
Total depreciation expense - governmental activities	<u>\$ 651,418</u>

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the City has entered into capitalized lease agreements for the acquisition of heavy equipment and a fire engine. During 2004, the City entered into a capitalized lease for additional heavy equipment.

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 2004 totaled \$12,071 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.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2004:

Year Ending December 31,	Enterprise
2005	\$ 15,470
2006	15,470
2007	15,470
Total future minimum lease payments	46,410
Less: amount representing interest	(5,362)
Present value of future minimum lease payments	\$ 41,048

The City does not have capitalized lease obligations after fiscal year 2007.

NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS

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

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

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS - (Continued)

Vacation is accumulated based upon length of service as follows:

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

The accrued vacation and sick leave benefits have been recorded on the government-wide financial statements.

NOTE 13 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

A. During the fiscal year 2004, the following changes occurred in the County's governmental long-term obligations:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Restated Balance at 01/01/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/04</u>	<u>Due Within One Year</u>
Governmental Activities:							
<u>Ohio Public Works Commission:</u>							
OPWC - Kelly Storm Sewer	05/08/98	N/A	\$ 117,992	\$ -	\$ (8,138)	\$ 109,854	\$ 8,138
OPWC - CSO#2,3,4	05/08/98	N/A	7,589	-	(5,062)	2,527	2,527
OPWC - Circle Drive	12/1/00	N/A	28,701	-	(2,050)	26,651	2,050
OPWC - CSO#5	12/20/00	N/A	70,068	-	(9,342)	60,726	9,342
Total OPWC loans			<u>224,350</u>	<u>-</u>	<u>(24,592)</u>	<u>199,758</u>	<u>22,057</u>
<u>Special Assessment Bonds:</u>							
Plaza Drive	05/01/88	7.125%	75,000	-	(15,000)	60,000	15,000
Kelly Addition	07/23/98	5.95%	313,413	-	(13,384)	300,029	13,384
Total special assessment bonds			<u>388,413</u>	<u>-</u>	<u>(28,384)</u>	<u>360,029</u>	<u>28,384</u>
<u>Other Long-Term Obligations:</u>							
Compensated absences payable			1,107,730	474,703	(330,901)	1,251,532	298,719
EMS ambulance loan			22,381	-	(22,381)	-	-
Total other long-term obligations			<u>1,130,111</u>	<u>474,703</u>	<u>(353,282)</u>	<u>1,251,532</u>	<u>298,719</u>
Total governmental activities			<u>\$ 1,742,874</u>	<u>\$ 474,703</u>	<u>\$ (406,258)</u>	<u>\$ 1,811,319</u>	<u>\$ 349,160</u>

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 13 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS - (Continued)

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Restated Balance at 01/01/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/04</u>	<u>Amounts Due in One Year</u>
Business-Type Activities:							
<u>General Obligation Bonds:</u>							
Reservoir refunding bonds	12/01/89	3.80-4.90%	\$ 1,590,000	\$ -	\$ (200,000)	\$ 1,390,000	\$ 210,000
Sewer refunding bonds	04/21/95	2.70-4.50%	<u>300,000</u>	<u>-</u>	<u>(145,000)</u>	<u>155,000</u>	<u>155,000</u>
Total general obligation bonds			<u>1,890,000</u>	<u>-</u>	<u>(345,000)</u>	<u>1,545,000</u>	<u>365,000</u>
<u>OWDA Loans Payable:</u>							
OWDA loan #3240	10/15/00	4.55%	985,777	-	(39,109)	946,668	40,953
OWDA loan #2262	07/01/95	4.56%	<u>3,707,462</u>	<u>-</u>	<u>(251,616)</u>	<u>3,455,846</u>	<u>263,221</u>
Total OWDA loans			<u>4,693,239</u>	<u>-</u>	<u>(290,725)</u>	<u>4,402,514</u>	<u>304,174</u>
<u>OPWC loan:</u>							
Fremont Street Pump Station	05/10/01	N/A	63,170	-	(4,680)	58,490	4,680
CSO #1, Wood County		N/A	<u>43,084</u>	<u>-</u>	<u>(4,308)</u>	<u>38,776</u>	<u>4,308</u>
Total OPWC loans			<u>106,254</u>	<u>-</u>	<u>(8,988)</u>	<u>97,266</u>	<u>8,988</u>
<u>Other Long-Term Obligations:</u>							
Compensated absences payable			287,420	184,579	(180,103)	291,896	77,172
Capital leases payable			<u>53,119</u>	<u>-</u>	<u>(12,071)</u>	<u>41,048</u>	<u>12,843</u>
Total other long-term obligations			<u>340,539</u>	<u>184,579</u>	<u>(192,174)</u>	<u>332,944</u>	<u>90,015</u>
Total business-type activities			<u>\$ 7,030,032</u>	<u>\$ 184,579</u>	<u>\$ (836,887)</u>	<u>\$ 6,377,724</u>	<u>\$ 768,177</u>

- B.** 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, 2004 is \$5,885,000.

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, 2004 is \$1,240,000.

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

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 13 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS - (Continued)

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.

C. A summary of the City's future debt service requirements as of December 31, 2004 follows:

Future Payment Due In	Business-Type OWDA Loans			Business-Type OPWC Loans	Governmental OPWC Loans
	Principal	Interest	Total	Principal Only	Principal Only
2005	\$ 304,174	\$ 198,262	\$ 502,436	\$ 8,988	\$ 22,058
2006	318,244	184,192	502,436	8,987	19,529
2007	332,965	169,472	502,437	8,988	19,529
2008	348,367	154,069	502,436	8,987	19,530
2009	364,482	137,954	502,436	8,988	19,530
2010-2014	2,091,468	420,718	2,512,186	40,629	64,951
2015-2019	561,085	70,816	631,901	11,699	34,631
2020	81,729	2,867	84,596	-	-
Total	<u>\$4,402,514</u>	<u>\$1,338,350</u>	<u>\$ 5,740,864</u>	<u>\$ 97,266</u>	<u>\$ 199,758</u>

Future Payment Due In	Governmental Special Assessment Bonds			Business-Type General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 29,245	\$ 21,917	\$ 51,162	\$ 365,000	\$ 65,127	\$ 430,127
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
2010-2014	107,688	51,745	159,433	260,000	12,740	272,740
2015-2018	112,025	15,519	127,544	-	-	-
Total	<u>\$ 360,029</u>	<u>\$ 157,068</u>	<u>\$ 517,097</u>	<u>\$ 1,545,000</u>	<u>\$ 240,485</u>	<u>\$ 1,785,485</u>

D. 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, 2004, the City's total voted debt margin was \$21,440,483, and the unvoted debt margin was \$11,219,740; both amounts include available funds of \$20,979.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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.

Settled claims have not exceeded this commercial coverage in any of the past five years.

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 United Healthcare of Ohio. The current United Healthcare plan provides a medical plan with no deductible and total out-of-pocket costs of \$500 for single coverage and \$1,000 for family coverage. Employees are required to share in the costs of their medical plan along with the City. Each month the City contributes \$296.21 for single coverage and \$776.05 for family coverage for each employee. In addition, all employees choosing family coverage must pay \$86.23 per month and \$32.91 for single coverage. Dental insurance is provided through Superior Dental with a deductible of \$25 for single coverage and \$50 for family coverage. The City pays for the majority of the monthly premium at \$20.26 for single coverage and \$63.61 for family coverage.

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 9.55% was the portion used to fund pension obligations for 2004. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 12.70% was the portion used to fund pension obligations for 2004. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$390,579, \$424,041, and \$416,220, respectively; 77% has been contributed for 2004 and 100% for 2003 and 2002. \$90,340, representing the unpaid contribution for 2004, is recorded as a liability within the respective funds.

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

Full-time uniformed employees of the City participate in the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. The 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 Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2004, 2003, and 2002 were \$569,376, \$500,527, and \$558,227, respectively; 74% has been contributed for 2004 and 100% for the years 2003 and 2002. \$150,587, representing the unpaid contributions for 2004, is recorded as a liability within the respective funds.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. 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". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2004 employer contribution rate for local government employers was 13.55% of covered payroll and 4.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2004 employer rate was 16.70% of covered payroll and 4.00% was the portion used to fund health care.

The number of active contributing participants in the traditional and combined plans was 369,885. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$115,300.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

As of December 31, 2003 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively, at December 31, 2003 (the latest information available).

CITY OF FOSTORIA, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2004, Comprehensive Annual Financial Report.

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly 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 that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2003 and 2004. 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.

The number of participants eligible to receive health care benefits as of December 31, 2003 (the latest information available), is 13,662 for police officers and 10,474 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$117,173 and \$88,576, respectively. OP&F's total health care expense for the year ending December 31, 2001 (the latest information available), was \$150.853 million, which was net of member contributions of \$17.208 million.

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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).
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	\$ (9,649)
Net adjustment for revenue accruals	(1,311,446)
Net adjustment for expenditure accruals	1,417,294
Adjustment for encumbrances	<u>136,728</u>
GAAP basis	<u><u>\$ 232,927</u></u>

CITY OF FOSTORIA, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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, 2004.

B. Litigation

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

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, 2004, is \$2,241,404. 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.

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Road West
Westerville, OH 43082

Telephone 614.846.1899
Facsimile 614.846.2799

Independent Accountant’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Members of Council and Mayor
City of Fostoria
213 S. Main Street
Fostoria, OH 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, Ohio as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements and have issued our report thereon dated August 25, 2005. 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 of Fostoria’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 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 certain matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the City of Fostoria in a separate letter dated August 25, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fostoria 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 two instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2004-COF-001 and 2004-COF-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated August 25, 2005.

Members of Council and Mayor
City of Fostoria

This report is intended solely for the information and use of the City of Fostoria and its management, 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.
August 25, 2005

**CITY OF FOSTORIA
SENECA COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2004-COF-001

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/Function</u>	<u>Excess</u>
<u>Nonmajor Funds</u>	
Street Maintenance & Repair	\$ 3,794
Grants - Airport	234,447
Grants - Brownfield	290,000
Grants - CDBG-ED	500,000
Emergency Medical Services	33,132

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, 2004**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2004-COF-002

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, 2004 the City had expenditures exceeding appropriations in the following funds:

<u>Fund/Department/Object</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Major Funds:			
<u>General Fund</u>			
Police Department			
Personal Services	\$ 2,328,594	\$ 2,386,089	57,495
Other	166,231	180,292	14,061
Fire Fighting			
Personal Services	1,574,852	1,576,975	2,123
General Security			
Personal Services	76,800	89,763	12,963
Legal Department			
Personal Services	147,612	155,925	8,313
City Income Tax Department			
Other	171,213	1,101,761	930,548
Clerk of Court			
Other	17,623	83,201	65,578
Land & Building			
Personal Services	4,500	27,102	22,602
County Auditors			
Other	19,750	26,321	6,571
Legal Assistants			
Other	34,547	38,672	4,125
<u>Enterprise Funds</u>			
Water Revenue			
General	896,856	1,090,550	193,694
Sewer Revenue			
General	920,777	947,990	27,213
Sewer Plant Replacement			
Other	228,596	275,738	47,142

**CITY OF FOSTORIA
SENECA COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2004-COF-002 - (Continued)

<u>Fund/Department/Object</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Nonmajor Funds:			
<u>Special Revenue Funds</u>			
Street Maintenance			
General	\$ 438,881	\$ 467,205	\$ 28,324
Other	203,050	206,845	3,795
State Highway Fund			
Other	18,411	51,649	33,238
Grants CDBG-ED			
Other	500,000	1,000,000	500,000
Fostoria Revolving Loan			
Other	325,910	819,013	493,103
City Cleanup			
Other	217	9,453	9,236
Emergency Medical Services			
General	197,510	270,957	73,447
<u>Capital Projects Funds</u>			
Veteran's Memorial Chapel			
Other	68,884	174,293	105,409
Sewer & Water Extension			
Other	353,355	430,607	77,252

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**

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Ohio Revised Code Section 5705.41 (D) in part requires that expenditures shall be encumbered prior to purchase	No	Partially corrected. Moved to the management letter.
2003-002	Ohio Revised Code Section 5705.10 in part does not allow for the existence of a deficit fund balance.	Yes	N/A
2003-003	Ohio Revised Code Section 5705.39 in part requires that appropriations from each fund shall not exceed the total estimated resources for each fund.	No	The City Auditor is attempting to monitor the City's budget more closely. Finding reissued as 2004-COF-001.
2003-004	Ohio Revised Code Section 5705.36 in part does not allow appropriations to exceed the certificate of estimated resources for each fund during the course of the year.	No	Partially corrected. Moved to the management letter.
2003-005	Vacation leave records should be completed properly and maintained within the Auditor's office.	Yes	N/A



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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
OCTOBER 20, 2005**