

# **CITY OF FOSTORIA**

**SENECA COUNTY**

**Audit Report**

**For the Year Ended December 31, 2006**

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





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the City of Fostoria, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

August 30, 2007

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**CITY OF FOSTORIA  
SENECA COUNTY  
Audit Report  
For the Year Ended December 31, 2006**

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

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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the City Council:

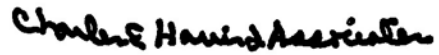
We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fostoria, Seneca County (the City), as of and for the year ended December 31, 2006, which collectively comprise 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 an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the Infrastructure Improvement Fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 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 certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 11, 2007 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, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Charles E. Harris". The signature is written in a cursive style.

*Charles E. Harris & Associates, Inc.*  
July 11, 2007



## CITY OF FOSTORIA, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (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, 2006. 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 2006 are as follows:

- The total net assets of the City increased \$933,411. Net assets of governmental activities increased \$624,487 or 4.43% over 2005 and net assets of business-type activities increased \$308,924 or 1.18% over 2005.
- General revenues accounted for \$8,069,268 or 79.95% of total governmental activities revenue. Program specific revenues accounted for \$2,024,387 or 20.05% of total governmental activities revenue.
- The City had \$9,388,959 in expenses related to governmental activities; \$2,024,387 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$7,364,572 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$8,069,268.
- The general fund had revenues and other financing sources of \$8,598,731 in 2006. This represents an increase of \$453,765 from 2005 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$8,379,233 in 2006, increased \$1,104,221 from 2005. The net increase in fund balance for the general fund was \$219,498 or 16.18%.
- The infrastructure improvement fund had revenues and other financing sources of \$437,883 in 2006. This represents an increase of \$191,514 from 2005 revenues and other financing sources. The expenditures and other financing uses of the infrastructure improvement fund, which totaled \$213,086 in 2006, decreased \$24,918 from 2005. The net increase in fund balance for the infrastructure improvement fund was \$224,797 or 143.49%.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2006 by \$308,924. 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 \$1,216,761 more than in the final budget and actual expenditures and other financing uses were \$208,959 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources increased \$295,870 from the original to the final budget. Budgeted expenditures and other financing uses increased \$1,560,721 from the original to the final budget due primarily to an increase in the amount of transfers out.

#### **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.

## CITY OF FOSTORIA, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

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.

#### **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 2006?" 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.

## **CITY OF FOSTORIA, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)**

#### ***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.

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and infrastructure improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20-24 of this report.

#### ***Proprietary Funds***

The City maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activities. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City has no internal service funds. The basic proprietary fund financial statements can be found on pages 25-28 of this report.

#### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Private-purpose trust and agency funds are the City's only fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 29-30 of this report.

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-63 of this report.

**CITY OF FOSTORIA, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net assets for 2006 and 2005:

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Assets</u>						
Current and other assets	\$ 9,309,257	\$ 8,555,985	\$ 1,835,769	\$ 1,877,468	\$ 11,145,026	\$ 10,433,453
Capital assets	<u>8,929,061</u>	<u>8,852,177</u>	<u>30,859,664</u>	<u>30,663,589</u>	<u>39,788,725</u>	<u>39,515,766</u>
Total assets	<u>18,238,318</u>	<u>17,408,162</u>	<u>32,695,433</u>	<u>32,541,057</u>	<u>50,933,751</u>	<u>49,949,219</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,836,778	1,851,588	5,735,506	5,913,944	7,572,284	7,765,532
Other liabilities	<u>1,659,689</u>	<u>1,439,210</u>	<u>335,761</u>	<u>311,871</u>	<u>1,995,450</u>	<u>1,751,081</u>
Total liabilities	<u>3,496,467</u>	<u>3,290,798</u>	<u>6,071,267</u>	<u>6,225,815</u>	<u>9,567,734</u>	<u>9,516,613</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	8,360,266	8,293,420	25,489,020	25,044,122	33,849,286	33,337,542
Restricted	4,976,664	4,741,273	-	-	4,976,664	4,741,273
Unrestricted	<u>1,404,921</u>	<u>1,082,671</u>	<u>1,135,146</u>	<u>1,271,120</u>	<u>2,540,067</u>	<u>2,353,791</u>
Total net assets	<u>\$ 14,741,851</u>	<u>\$ 14,117,364</u>	<u>\$ 26,624,166</u>	<u>\$ 26,315,242</u>	<u>\$ 41,366,017</u>	<u>\$ 40,432,606</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$41,366,017. At year-end, net assets were \$14,741,851 and \$26,624,166 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 78.12% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$8,360,266 and \$25,489,020 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, 2006, 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, \$4,976,664, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,404,921 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, 2006  
(UNAUDITED)**

The table below shows the changes in net assets for fiscal years 2006 and 2005.

	<b>Change in Net Assets</b>					
	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 912,335	\$ 763,413	\$ 3,736,603	\$ 4,148,570	\$ 4,648,938	\$ 4,911,983
Operating grants and contributions	962,661	975,837	-	-	962,661	975,837
Capital grants and contributions	149,391	349,072	-	166,022	149,391	515,094
Total program revenues	<u>2,024,387</u>	<u>2,088,322</u>	<u>3,736,603</u>	<u>4,314,592</u>	<u>5,760,990</u>	<u>6,402,914</u>
General revenues:						
Property taxes	1,128,479	826,764	-	-	1,128,479	826,764
Income taxes	5,666,958	5,702,062	-	-	5,666,958	5,702,062
Unrestricted grants and entitlements	814,919	909,034	-	-	814,919	909,034
Investment earnings	234,175	71,931	-	-	234,175	71,931
Miscellaneous	224,737	166,706	656,900	412,828	881,637	579,534
Total general revenues	<u>8,069,268</u>	<u>7,676,497</u>	<u>656,900</u>	<u>412,828</u>	<u>8,726,168</u>	<u>8,089,325</u>
Total revenues	<u>10,093,655</u>	<u>9,764,819</u>	<u>4,393,503</u>	<u>4,727,420</u>	<u>14,487,158</u>	<u>14,492,239</u>
<b>Expenses:</b>						
General government	1,572,840	1,543,153	-	-	1,572,840	1,543,153
Security of persons and property	5,336,394	5,057,194	-	-	5,336,394	5,057,194
Public health and welfare	297,895	266,128	-	-	297,895	266,128
Transportation	1,278,911	1,135,184	-	-	1,278,911	1,135,184
Community environment	698,275	1,172,436	-	-	698,275	1,172,436
Leisure time activity	177,886	107,579	-	-	177,886	107,579
Other	1,000	15,597	-	-	1,000	15,597
Interest and fiscal charges	25,758	23,264	-	-	25,758	23,264
Water	-	-	2,219,063	2,542,415	2,219,063	2,542,415
Sewer	-	-	1,945,725	1,947,798	1,945,725	1,947,798
Total expenses	<u>9,388,959</u>	<u>9,320,535</u>	<u>4,164,788</u>	<u>4,490,213</u>	<u>13,553,747</u>	<u>13,810,748</u>
Transfers	<u>(80,209)</u>	<u>(66,061)</u>	<u>80,209</u>	<u>66,061</u>	<u>-</u>	<u>-</u>
Change in net assets	624,487	378,223	308,924	303,268	933,411	681,491
Net assets at beginning of year	<u>14,117,364</u>	<u>13,739,141</u>	<u>26,315,242</u>	<u>26,011,974</u>	<u>40,432,606</u>	<u>39,751,115</u>
Net assets at end of year	<u>\$ 14,741,851</u>	<u>\$ 14,117,364</u>	<u>\$ 26,624,166</u>	<u>\$ 26,315,242</u>	<u>\$ 41,366,017</u>	<u>\$ 40,432,606</u>

**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

**Governmental Activities**

Governmental activities net assets increased \$624,487 in 2006.

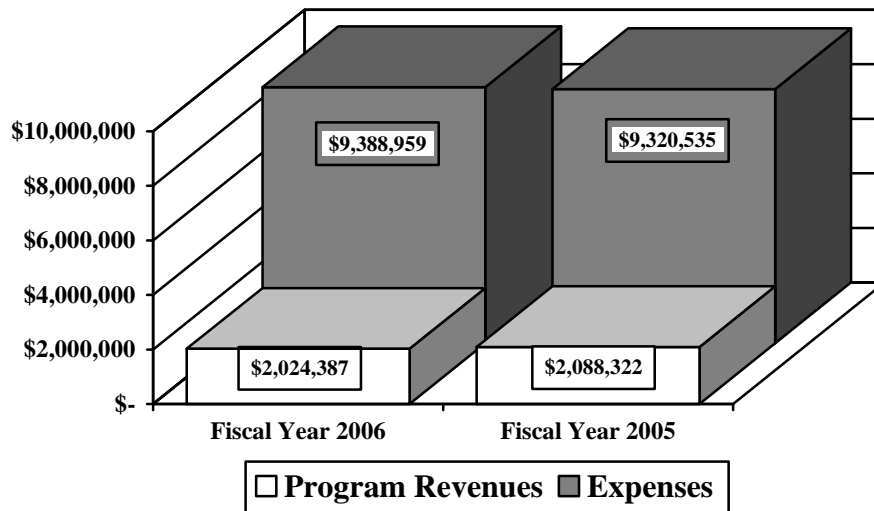
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,336,394 of the total expenses of the City. These expenses were partially funded by \$402,832 in direct charges to users of the services and \$63,256 in operating grants and contributions. Transportation expenses totaled \$1,278,911. Transportation expenses were partially funded by \$32,432 in direct charges to users of the services, \$835,929 in operating grants and contributions and \$149,391 in capital grants and contributions.

The state and federal government contributed to the City a total of \$962,661 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$835,929 subsidized transportation programs, \$60,113 subsidized community environment programs and \$63,256 subsidized security of persons and property activities.

General revenues totaled \$8,069,268, and amounted to 79.95% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$6,795,437. 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 \$814,919.

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**

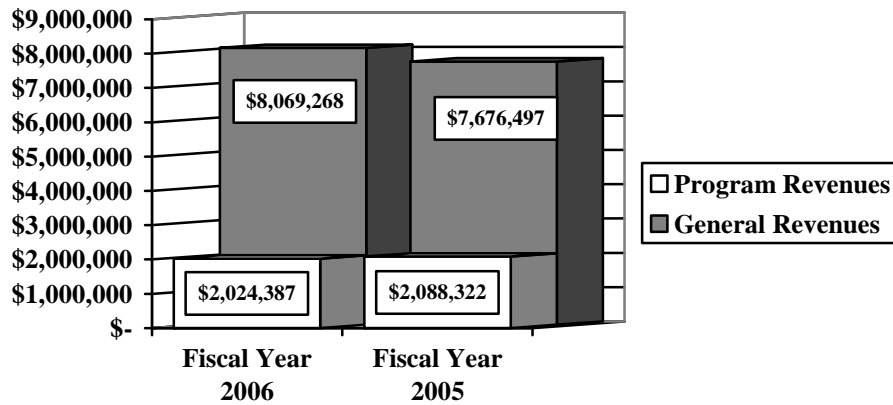
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

**Governmental Activities**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses:				
General government	\$ 1,572,840	\$ 1,208,403	\$ 1,543,153	\$ 1,207,191
Security of persons and property	5,336,394	4,870,306	5,057,194	4,673,693
Public health and welfare	297,895	239,171	266,128	197,253
Transportation	1,278,911	261,159	1,135,184	361,508
Community environment	698,275	590,395	1,172,436	678,983
Leisure time activity	177,886	173,251	107,579	105,928
Other	1,000	(3,871)	15,597	12,252
Interest and fiscal charges	<u>25,758</u>	<u>25,758</u>	<u>23,264</u>	<u>(4,595)</u>
<b>Total</b>	<b><u>\$ 9,388,959</u></b>	<b><u>\$ 7,364,572</u></b>	<b><u>\$ 9,320,535</u></b>	<b><u>\$ 7,232,213</u></b>

The dependence upon general revenues for governmental activities is apparent, with 78.44% of expenses supported through taxes and other general revenues.

**Governmental Activities – General and Program Revenues**



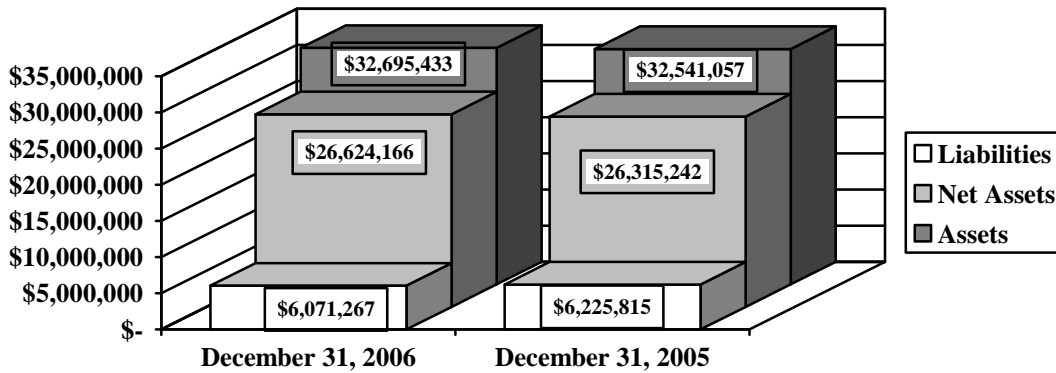
**CITY OF FOSTORIA, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)

**Business-type Activities**

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$3,736,603 general revenues of \$656,900, transfers in of \$80,209 and expenses of \$4,164,788 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

**Net Assets in Business – Type Activities**



**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$5,911,863 which is \$662,736 greater than last year's total of \$5,249,127. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> <u>12/31/06</u>	<u>Fund Balances</u> <u>12/31/05</u>	<u>Increase</u>
Major funds:			
General	\$ 1,576,583	\$ 1,357,085	\$ 219,498
Infrastructure improvement	381,463	156,666	224,797
Other nonmajor governmental funds	<u>3,953,817</u>	<u>3,735,376</u>	<u>218,441</u>
Total	<u>\$ 5,911,863</u>	<u>\$ 5,249,127</u>	<u>\$ 662,736</u>



**CITY OF FOSTORIA, OHIO**

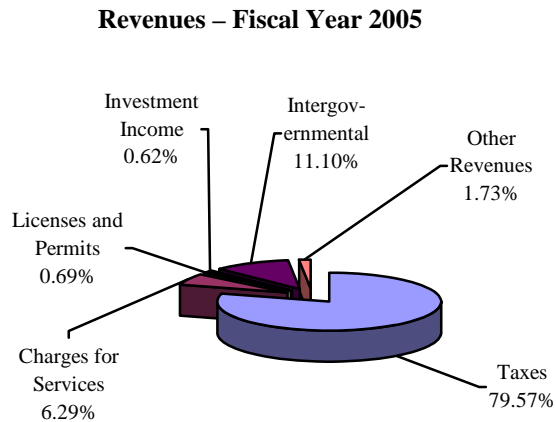
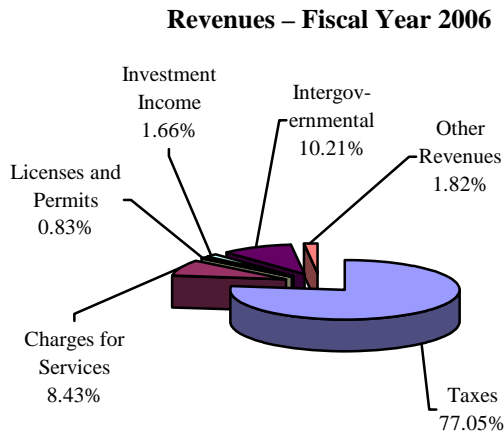
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

**General Fund**

The City's general fund balance increased \$219,498, primarily due to increases in taxes and charges for services. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 6,609,168	\$ 6,480,862	1.98 %
Charges for services	722,924	512,320	41.11 %
Licenses and permits	70,795	56,360	25.61 %
Investment income	142,490	50,640	181.38 %
Intergovernmental	876,017	904,064	(3.10) %
Refunds and reimbursements	83,154	77,559	7.21 %
Other	<u>73,672</u>	<u>63,161</u>	16.64 %
Total	<u>\$ 8,578,220</u>	<u>\$ 8,144,966</u>	5.32 %

Tax revenue represents 77.05% of all general fund revenue. Tax revenue increased by 1.98% over prior year. The increase in other revenue is due to an increase in the collections of local revenue. Investment income increased 181.38% due to an increase in interest rates. Charges for services increased 41.11% due to the City's ambulance service now being accounted for in the general fund. All other revenue remained comparable to 2005.



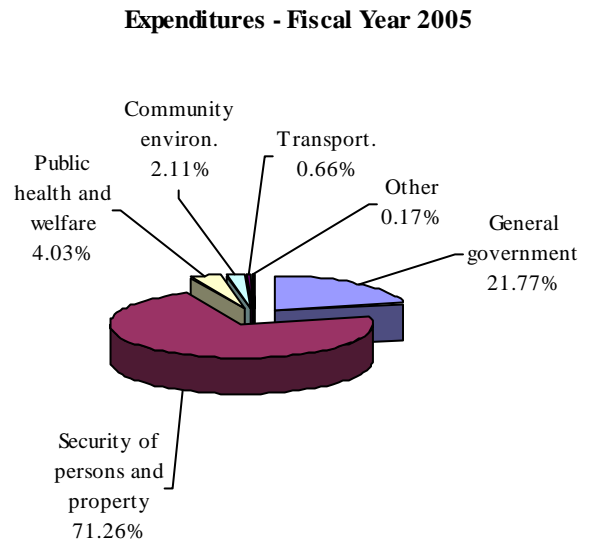
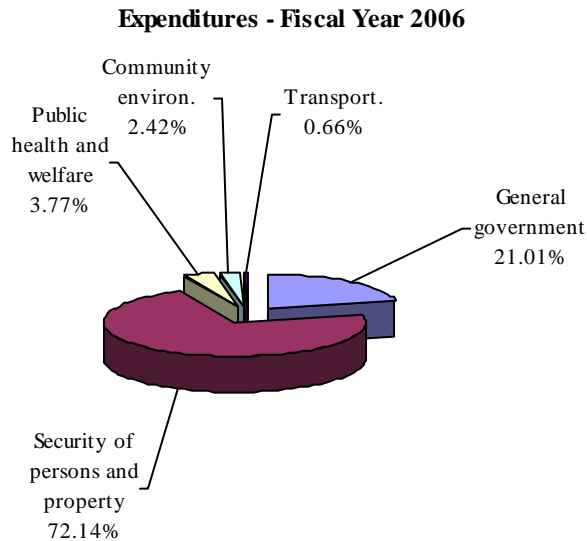
**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 1,432,004	\$ 1,366,879	4.76 %
Security of persons and property	4,915,982	4,474,499	9.87 %
Public health and welfare	256,973	253,003	1.57 %
Transportation	44,855	41,282	8.66 %
Community environment	165,069	132,573	24.51 %
Other	-	10,512	(100.00) %
<b>Total</b>	<b><u>\$ 6,814,883</u></b>	<b><u>\$ 6,278,748</u></b>	<b>8.54 %</b>

The largest expenditure line item, security of persons and property, increased, which is primarily attributed to wage and benefit increases. Community environment expenditures increased 24.51%, which is primarily due to increased services provided by the City. All expenditures remained comparable to 2005.



***Infrastructure Improvement Fund***

During 2006, the infrastructure improvement fund had \$437,883 in revenues and other financing sources. Expenditures and other financing uses totaled \$213,086. The infrastructure improvement fund's fund balance increased \$224,797 in 2006, from \$156,666 to \$381,463. This increase is primarily due to a \$400,000 transfer in.

**CITY OF FOSTORIA, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(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 \$1,216,761 more than in the final budget and actual expenditures and other financing uses were \$208,959 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues and other financing sources increased \$295,870 from the original to the final budget. Budgeted expenditures and other financing uses increased \$1,560,721 from the original to the final budget due primarily to an increase in the amount of transfers out.

***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 2006, the City had \$39,788,725 (net of accumulated depreciation) invested in land, land improvements, buildings, machinery and equipment, vehicles, infrastructure and construction in progress. Of this total, \$8,929,061 was reported in governmental activities and \$30,859,664 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

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

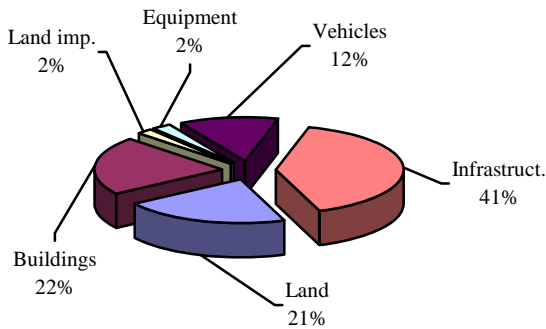
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 1,890,656	\$ 1,890,656	\$ 8,374,270	\$ 8,374,270	\$ 10,264,926	\$ 10,264,926
Land improvements	167,706	181,496	-	-	167,706	181,496
Buildings	1,933,236	2,036,412	7,511,960	7,689,889	9,445,196	9,726,301
Machinery and equipment	222,070	224,077	342,275	381,840	564,345	605,917
Vehicles	1,113,102	1,076,740	304,256	297,075	1,417,358	1,373,815
Infrastructure	3,602,291	3,442,796	13,548,887	13,920,515	17,151,178	17,363,311
Construction in progress	-	-	778,016	-	778,016	-
Totals	<u>\$ 8,929,061</u>	<u>\$ 8,852,177</u>	<u>\$30,859,664</u>	<u>\$ 30,663,589</u>	<u>\$ 39,788,725</u>	<u>\$ 39,515,766</u>

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

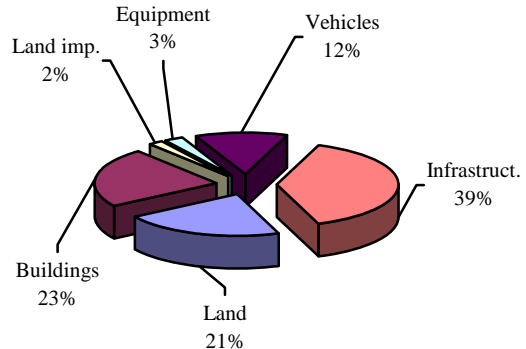
**CITY OF FOSTORIA, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006  
(UNAUDITED)**

**Capital Assets - Governmental Activities  
2006**



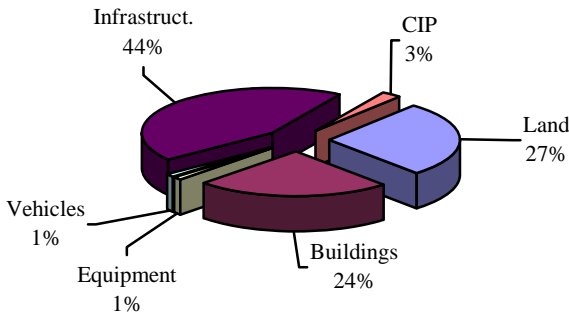
**Capital Assets - Governmental Activities  
2005**



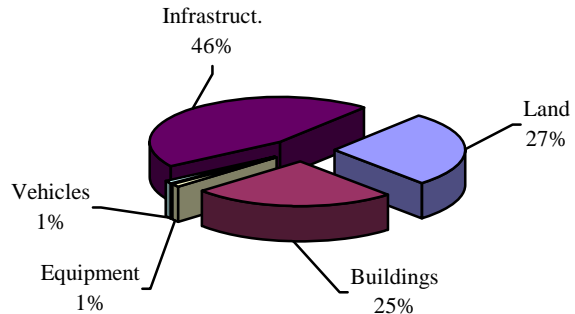
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 41% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.

**Capital Assets - Business-Type Activities 2006**



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



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 44% 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, 2006  
(UNAUDITED)

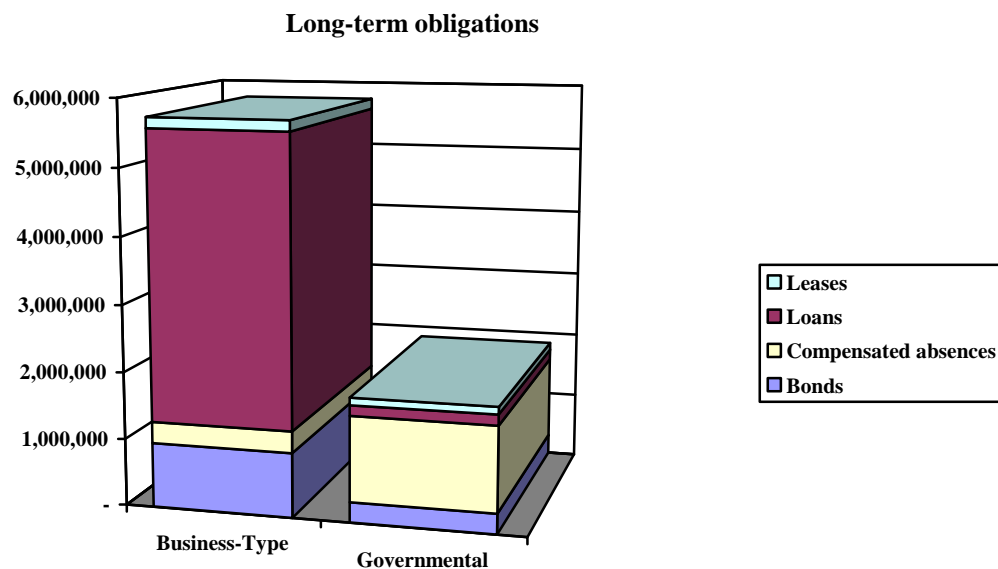
***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Compensated absences	\$1,267,983	\$1,292,831
OPWC loans	158,170	177,701
Capital lease payable	109,946	50,272
Special assessment bonds	<u>300,679</u>	<u>330,784</u>
<b>Total long-term obligations</b>	<b><u>\$1,836,778</u></b>	<b><u>\$1,851,588</u></b>

	Business-type Activities	
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 965,000	\$1,180,000
OPWC loans	144,381	156,793
OWDA loans	4,146,683	4,098,340
Capital lease payable	159,211	184,334
Compensated absences	<u>320,231</u>	<u>294,477</u>
<b>Total long-term obligations</b>	<b><u>\$5,735,506</u></b>	<b><u>\$5,913,944</u></b>

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



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

## **CITY OF FOSTORIA, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)**

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

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

Over the past few years, the City has experienced what many cities across the State of Ohio have experienced. A slowdown in the overall economy, decreased funding from both the State and Federal level, and general downsizing in industry have created a challenging economic environment for the City. The loss of jobs and reduction in industry has resulted in decreased income tax revenue projections. This decrease in income tax has been factored into the 2007 budget.

These economic factors were considered in preparing the City's budget for fiscal year 2007. Budgeted revenues and other financing sources in the general fund for fiscal year 2007 budget are \$7,660,270. With the continuation of conservative budgeting practices, the City's should be able to maintain its current financial position.

#### **Contacting the City's Financial Management**

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

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF FOSTORIA, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2006

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 4,307,573	\$ 980,804	\$ 5,288,377
Cash and cash equivalents with fiscal agent . . . . .	75,288	-	75,288
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	1,190,218	-	1,190,218
Real and other taxes . . . . .	1,185,790	-	1,185,790
Accounts . . . . .	68,793	776,467	845,260
Accrued interest . . . . .	76	-	76
Due from other governments . . . . .	739,147	-	739,147
Special assessments . . . . .	415,843	-	415,843
Loans. . . . .	1,278,543	-	1,278,543
Materials and supplies inventory. . . . .	47,986	33,867	81,853
Unamortized bond issue costs . . . . .	-	13,127	13,127
Deferred charges . . . . .	-	31,504	31,504
Capital assets:			
Land and construction in progress . . . . .	1,890,656	9,152,286	11,042,942
Depreciable capital assets, net . . . . .	7,038,405	21,707,378	28,745,783
Total capital assets, net . . . . .	<u>8,929,061</u>	<u>30,859,664</u>	<u>39,788,725</u>
Total assets. . . . .	<u>18,238,318</u>	<u>32,695,433</u>	<u>50,933,751</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	154,404	54,303	208,707
Contracts payable. . . . .	234,226	69,249	303,475
Accrued wages and benefits . . . . .	112,026	34,905	146,931
Due to other governments . . . . .	69,383	21,612	90,995
Pension obligation payable. . . . .	219,910	60,952	280,862
Deferred revenue. . . . .	865,000	-	865,000
Accrued interest payable. . . . .	4,740	94,740	99,480
Long-term liabilities:			
Due within one year . . . . .	517,340	822,223	1,339,563
Due in more than one year . . . . .	1,319,438	4,913,283	6,232,721
Total liabilities . . . . .	<u>3,496,467</u>	<u>6,071,267</u>	<u>9,567,734</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	8,360,266	25,489,020	33,849,286
Restricted for:			
Capital projects. . . . .	1,395,178	-	1,395,178
Debt service . . . . .	52,805	-	52,805
Termination benefits. . . . .	322,056	-	322,056
Security of persons and property. . . . .	176,610	-	176,610
Transportation projects. . . . .	541,009	-	541,009
Revolving loans . . . . .	1,903,341	-	1,903,341
Perpetual care:			
Expendable. . . . .	3,805	-	3,805
Nonexpendable . . . . .	20,000	-	20,000
Other purposes . . . . .	561,860	-	561,860
Unrestricted. . . . .	<u>1,404,921</u>	<u>1,135,146</u>	<u>2,540,067</u>
Total net assets . . . . .	<u>\$ 14,741,851</u>	<u>\$ 26,624,166</u>	<u>\$ 41,366,017</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government . . . . .	\$ 1,572,840	\$ 364,437	\$ -	\$ -
Security of persons and property. . . . .	5,336,394	402,832	63,256	-
Public health and welfare . . . . .	297,895	55,361	3,363	-
Transportation . . . . .	1,278,911	32,432	835,929	149,391
Community environment. . . . .	698,275	47,767	60,113	-
Leisure time activity. . . . .	177,886	4,635	-	-
Other . . . . .	1,000	4,871	-	-
Interest and fiscal charges. . . . .	25,758	-	-	-
Total governmental activities . . . . .	<u>9,388,959</u>	<u>912,335</u>	<u>962,661</u>	<u>149,391</u>
<b>Business-Type Activities:</b>				
Water . . . . .	2,219,063	1,865,499	-	-
Sewer . . . . .	<u>1,945,725</u>	<u>1,871,104</u>	<u>-</u>	<u>-</u>
Total business-type activities . . . . .	<u>4,164,788</u>	<u>3,736,603</u>	<u>-</u>	<u>-</u>
Total primary government. . . . .	<u>\$ 13,553,747</u>	<u>\$ 4,648,938</u>	<u>\$ 962,661</u>	<u>\$ 149,391</u>

**General Revenues:**

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (1,208,403)	\$ -	\$ (1,208,403)
(4,870,306)	-	(4,870,306)
(239,171)	-	(239,171)
(261,159)	-	(261,159)
(590,395)	-	(590,395)
(173,251)	-	(173,251)
3,871	-	3,871
(25,758)	-	(25,758)
<u>(7,364,572)</u>	<u>-</u>	<u>(7,364,572)</u>
-	(353,564)	(353,564)
<u>-</u>	<u>(74,621)</u>	<u>(74,621)</u>
-	(428,185)	(428,185)
<u>(7,364,572)</u>	<u>(428,185)</u>	<u>(7,792,757)</u>
978,225	-	978,225
150,254	-	150,254
5,666,958	-	5,666,958
814,919	-	814,919
234,175	-	234,175
<u>224,737</u>	<u>656,900</u>	<u>881,637</u>
<u>8,069,268</u>	<u>656,900</u>	<u>8,726,168</u>
<u>(80,209)</u>	<u>80,209</u>	<u>-</u>
624,487	308,924	933,411
<u>14,117,364</u>	<u>26,315,242</u>	<u>40,432,606</u>
<u>\$ 14,741,851</u>	<u>\$ 26,624,166</u>	<u>\$ 41,366,017</u>

**CITY OF FOSTORIA, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006

	<u>General</u>	<u>Infrastructure Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 1,124,067	\$ 504,145	\$ 2,679,361	\$ 4,307,573
Cash and cash equivalents with fiscal agent . . . . .	-	-	75,288	75,288
Receivables (net of allowance for uncollectibles):				
Income taxes. . . . .	1,190,218	-	-	1,190,218
Real and other taxes. . . . .	1,024,840	-	160,950	1,185,790
Accounts . . . . .	68,793	-	-	68,793
Accrued interest . . . . .	-	-	76	76
Due from other governments. . . . .	273,094	-	466,053	739,147
Special assessments. . . . .	-	382,637	33,206	415,843
Loans. . . . .	-	-	1,278,543	1,278,543
Interfund loan receivable. . . . .	248	-	-	248
Materials and supplies inventory . . . . .	-	-	47,986	47,986
Total assets . . . . .	<u>\$ 3,681,260</u>	<u>\$ 886,782</u>	<u>\$ 4,741,463</u>	<u>\$ 9,309,505</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 46,853	\$ -	\$ 107,551	\$ 154,404
Contracts payable . . . . .	-	122,682	111,544	234,226
Accrued wages and benefits. . . . .	103,739	-	8,287	112,026
Interfund loan payable. . . . .	-	-	248	248
Due to other governments. . . . .	63,463	-	5,920	69,383
Pension obligation payable . . . . .	203,693	-	16,217	219,910
Deferred revenue . . . . .	1,686,929	382,637	537,879	2,607,445
Total liabilities . . . . .	<u>2,104,677</u>	<u>505,319</u>	<u>787,646</u>	<u>3,397,642</u>
<b>Fund Balances:</b>				
Reserved for encumbrances. . . . .	24,751	123,752	567,130	715,633
Reserved for materials and supplies inventory . . . . .	-	-	47,986	47,986
Reserved for loans . . . . .	-	-	1,278,543	1,278,543
Reserved for perpetual care . . . . .	-	-	3,067	3,067
Reserved for debt service. . . . .	-	-	19,777	19,777
Unreserved, undesignated, reported in:				
General fund. . . . .	1,551,832	-	-	1,551,832
Special revenue funds. . . . .	-	-	1,633,739	1,633,739
Capital projects funds. . . . .	-	257,711	383,575	641,286
Permanent fund . . . . .	-	-	20,000	20,000
Total fund balances . . . . .	<u>1,576,583</u>	<u>381,463</u>	<u>3,953,817</u>	<u>5,911,863</u>
Total liabilities and fund balances. . . . .	<u>\$ 3,681,260</u>	<u>\$ 886,782</u>	<u>\$ 4,741,463</u>	<u>\$ 9,309,505</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006

<b>Total governmental fund balances</b>		\$ 5,911,863
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		8,929,061
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 314,847	
Income taxes	563,012	
Special assessments	415,843	
Intergovernmental revenues	448,743	
Total		1,742,445
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(4,740)
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	300,679	
Capital lease payable	109,946	
Compensated absences payable	1,267,983	
OPWC loans payable	158,170	
Total		(1,836,778)
<b>Net assets of governmental activities</b>		<b>\$ 14,741,851</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Infrastructure Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 5,825,592	\$ -	\$ -	\$ 5,825,592
Property and other taxes . . . . .	783,576	-	119,463	903,039
Charges for services . . . . .	722,924	-	8,796	731,720
Licenses and permits . . . . .	70,795	-	-	70,795
Fines and forfeitures . . . . .	16,983	-	60,753	77,736
Intergovernmental . . . . .	876,017	-	1,156,603	2,032,620
Special assessments . . . . .	-	37,883	19,182	57,065
Investment income . . . . .	142,490	-	91,685	234,175
Rental income . . . . .	21,054	-	4,635	25,689
Refunds and reimbursements . . . . .	83,154	-	53,563	136,717
Contributions and donations . . . . .	125	-	37,968	38,093
Other . . . . .	35,510	-	31,295	66,805
Total revenues . . . . .	<u>8,578,220</u>	<u>37,883</u>	<u>1,583,943</u>	<u>10,200,046</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,432,004	-	108,180	1,540,184
Security of persons and property . . . . .	4,915,982	-	286,301	5,202,283
Public health and welfare . . . . .	256,973	-	24,445	281,418
Transportation . . . . .	44,855	-	895,836	940,691
Community environment . . . . .	165,069	-	525,733	690,802
Leisure time activity . . . . .	-	-	102,330	102,330
Other . . . . .	-	-	1,000	1,000
Capital outlay . . . . .	-	157,362	624,763	782,125
Debt service:				
Principal retirement . . . . .	-	34,636	86,949	121,585
Interest and fiscal charges . . . . .	-	16,779	5,938	22,717
Total expenditures . . . . .	<u>6,814,883</u>	<u>208,777</u>	<u>2,661,475</u>	<u>9,685,135</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>1,763,337</u>	<u>(170,894)</u>	<u>(1,077,532)</u>	<u>514,911</u>
<b>Other financing sources (uses):</b>				
Capital lease transaction . . . . .	-	-	131,623	131,623
Sale of capital assets . . . . .	20,511	-	-	20,511
Transfers in . . . . .	-	400,000	1,229,822	1,629,822
Transfers (out) . . . . .	<u>(1,564,350)</u>	<u>(4,309)</u>	<u>(65,472)</u>	<u>(1,634,131)</u>
Total other financing sources (uses) . . . . .	<u>(1,543,839)</u>	<u>395,691</u>	<u>1,295,973</u>	<u>147,825</u>
Net change in fund balances . . . . .	219,498	224,797	218,441	662,736
<b>Fund balances at beginning of year . . . . .</b>	<u>1,357,085</u>	<u>156,666</u>	<u>3,735,376</u>	<u>5,249,127</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 1,576,583</u>	<u>\$ 381,463</u>	<u>\$ 3,953,817</u>	<u>\$ 5,911,863</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, 2006

**Net change in fund balances - total governmental funds** \$ 662,736

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

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

Capital outlay	\$ 645,737	
Depreciation expense	(567,051)	
Total		78,686

Governmental funds only report the disposal of capital assets  
to the extent proceeds are received from the sale. In the  
statement of activities, a gain or loss is reported for each disposal. (1,802)

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

Property taxes	225,440	
Income taxes	(158,634)	
Special assessments	(50,092)	
Intergovernmental	(143,616)	
Total		(126,902)

Repayment of bond, lease and loan principal are expenditures  
in the governmental funds, but the repayments reduces long-term  
liabilities in the statement of net assets. 121,585

Proceeds of capital leases are reported as revenue in the  
governmental funds, but increase long-term liabilities in the  
statement of activities. (131,623)

In the statement of activities, interest is accrued on  
outstanding bonds and leases, whereas in governmental  
funds an interest expenditure is reported when due. (3,041)

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. 24,848

**Change in net assets of governmental activities** \$ 624,487

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 5,450,000	\$ 5,325,145	\$ 5,865,111	\$ 539,966
Property and other taxes . . . . .	718,900	709,137	781,043	71,906
Charges for services . . . . .	533,890	556,905	613,375	56,470
Licenses and permits. . . . .	38,340	62,934	69,316	6,382
Fines and forfeitures. . . . .	10,500	15,420	16,983	1,563
Intergovernmental . . . . .	535,750	795,368	876,018	80,650
Investment income . . . . .	30,000	129,373	142,490	13,117
Rental income . . . . .	15,000	19,116	21,054	1,938
Refunds and reimbursements. . . . .	68,000	75,500	83,154	7,654
Contributions and donations. . . . .	-	110	125	15
Other . . . . .	25,000	32,242	35,510	3,268
Total revenues. . . . .	<u>7,425,380</u>	<u>7,721,250</u>	<u>8,504,179</u>	<u>782,929</u>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative and executive. . . . .	1,003,535	1,086,324	1,010,278	76,046
Judicial. . . . .	443,609	453,006	443,367	9,639
Security of persons and property . . . . .	4,883,940	5,093,857	4,971,602	122,255
Public health and welfare. . . . .	230,118	257,859	256,582	1,277
Transportation . . . . .	44,297	46,168	44,780	1,388
Community environment . . . . .	170,302	178,291	186,604	(8,313)
Total expenditures . . . . .	<u>6,775,801</u>	<u>7,115,505</u>	<u>6,913,213</u>	<u>202,292</u>
Excess of revenues over expenditures. . . . .	<u>649,579</u>	<u>605,745</u>	<u>1,590,966</u>	<u>985,221</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets. . . . .	-	-	20,511	20,511
Transfers in. . . . .	-	-	413,321	413,321
Transfers (out). . . . .	(750,000)	(1,971,017)	(1,964,350)	6,667
Total other financing sources (uses) . . . . .	<u>(750,000)</u>	<u>(1,971,017)</u>	<u>(1,530,518)</u>	<u>440,499</u>
Net change in fund balance . . . . .	(100,421)	(1,365,272)	60,448	1,425,720
<b>Fund balance at beginning of year. . . . .</b>	905,722	905,722	905,722	-
<b>Prior year encumbrances appropriated . . . . .</b>	86,541	86,541	86,541	-
<b>Fund balance (deficit) at end of year . . . . .</b>	<u>\$ 891,842</u>	<u>\$ (373,009)</u>	<u>\$ 1,052,711</u>	<u>\$ 1,425,720</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**CITY OF FOSTORIA, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2006

	<b>Business-Type Activities -Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and cash equivalents . . . .	\$ 229,107	\$ 751,697	\$ 980,804
Receivables (net of allowance for uncollectibles):			
Accounts . . . . .	372,526	403,941	776,467
Materials and supplies inventory . . . . .	16,379	17,488	33,867
Unamortized bond issue costs . . . . .	7,342	5,785	13,127
Deferred charges. . . . .	31,504	-	31,504
Total current assets . . . . .	<u>656,858</u>	<u>1,178,911</u>	<u>1,835,769</u>
Noncurrent assets:			
Capital assets:			
Land and construction in progress. . . . .	8,241,356	910,930	9,152,286
Depreciable capital assets, net . . . . .	<u>9,274,498</u>	<u>12,432,880</u>	<u>21,707,378</u>
Total capital assets, net . . . . .	<u>17,515,854</u>	<u>13,343,810</u>	<u>30,859,664</u>
Total assets. . . . .	<u>18,172,712</u>	<u>14,522,721</u>	<u>32,695,433</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable . . . . .	17,035	37,268	54,303
Contracts payable. . . . .	-	69,249	69,249
Accrued wages and benefits. . . . .	20,342	14,563	34,905
Due to other governments. . . . .	14,291	7,321	21,612
Pension obligation payable . . . . .	34,454	26,498	60,952
Accrued interest payable . . . . .	25,496	69,244	94,740
Current portion of compensated absences . . . . .	76,991	66,953	143,944
Current portion of refunding bonds. . . . .	225,000	-	225,000
Current portion of capital lease obligation . . . . .	52,143	52,331	104,474
Current portion of OWDA loans . . . . .	44,905	288,060	332,965
Current portion of OPWC loans . . . . .	6,851	8,989	15,840
Total current liabilities . . . . .	<u>517,508</u>	<u>640,476</u>	<u>1,157,984</u>
Long-term liabilities:			
Refunding bonds . . . . .	740,000	-	740,000
Capital lease obligation . . . . .	-	54,737	54,737
OWDA loans. . . . .	817,926	2,995,792	3,813,718
OPWC loans . . . . .	58,238	70,303	128,541
Compensated absences. . . . .	94,289	81,998	176,287
Total long-term liabilities. . . . .	<u>1,710,453</u>	<u>3,202,830</u>	<u>4,913,283</u>
Total liabilities . . . . .	<u>2,227,961</u>	<u>3,843,306</u>	<u>6,071,267</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt. . . .	15,609,637	9,879,383	25,489,020
Unrestricted . . . . .	<u>335,114</u>	<u>800,032</u>	<u>1,135,146</u>
Total net assets . . . . .	<u>\$ 15,944,751</u>	<u>\$ 10,679,415</u>	<u>26,624,166</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Operating revenues:</b>			
Charges for services . . . . .	\$ 1,843,822	\$ 1,864,719	\$ 3,708,541
Tap-in fees . . . . .	21,677	6,385	28,062
Refunds and reimbursements . . . . .	352,285	241,285	593,570
Other . . . . .	24,074	39,256	63,330
Total operating revenues . . . . .	<u>2,241,858</u>	<u>2,151,645</u>	<u>4,393,503</u>
<b>Operating expenses:</b>			
Personal services . . . . .	1,225,679	978,718	2,204,397
Contract services . . . . .	74,239	238,684	312,923
Materials and supplies . . . . .	264,301	87,821	352,122
Utilities . . . . .	176,286	186,737	363,023
Depreciation . . . . .	351,596	305,551	657,147
Other . . . . .	8,103	-	8,103
Total operating expenses . . . . .	<u>2,100,204</u>	<u>1,797,511</u>	<u>3,897,715</u>
Operating income . . . . .	<u>141,654</u>	<u>354,134</u>	<u>495,788</u>
<b>Nonoperating expenses:</b>			
Interest expense and fiscal charges . . . . .	(118,859)	(148,214)	(267,073)
Total nonoperating expenses . . . . .	<u>(118,859)</u>	<u>(148,214)</u>	<u>(267,073)</u>
Income before transfers and capital contributions . . . . .	22,795	205,920	228,715
Transfers in . . . . .	-	4,309	4,309
Capital contributions . . . . .	-	75,900	75,900
Changes in net assets . . . . .	22,795	286,129	308,924
<b>Net assets at beginning of year . . . . .</b>	<u>15,921,956</u>	<u>10,393,286</u>	<u>26,315,242</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 15,944,751</u>	<u>\$ 10,679,415</u>	<u>\$ 26,624,166</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, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers . . . . .	\$ 1,838,399	\$ 1,870,852	\$ 3,709,251
Cash received from tap-in fees. . . . .	21,677	6,385	28,062
Cash received from refunds and reimbursements . . . . .	352,285	241,285	593,570
Cash received from other operations. . . . .	24,074	39,256	63,330
Cash payments for personal services . . . . .	(1,210,521)	(950,031)	(2,160,552)
Cash payments for contract services . . . . .	(78,019)	(292,269)	(370,288)
Cash payments for materials and supplies . . . . .	(278,318)	(87,378)	(365,696)
Cash payments for utilities. . . . .	(176,045)	(170,669)	(346,714)
Cash payments for other expenses. . . . .	(8,103)	-	(8,103)
	<u>485,429</u>	<u>657,431</u>	<u>1,142,860</u>
Net cash provided by operating activities. . . . .			
<b>Cash flows from noncapital financing activities:</b>			
Cash received from transfers in . . . . .	-	4,309	4,309
Net cash provided by noncapital financing activities . . . . .	<u>-</u>	<u>4,309</u>	<u>4,309</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets . . . . .	(121,568)	(514,631)	(636,199)
Loan issuance. . . . .	-	366,588	366,588
Principal retirement on bonds and loans . . . . .	(261,310)	(284,347)	(545,657)
Interest paid on bonds and loans . . . . .	(97,389)	(142,481)	(239,870)
Principal retirement on capital leases. . . . .	(51,268)	(49,061)	(100,329)
Interest paid on capital leases . . . . .	(1,805)	(8,210)	(10,015)
Net cash used in capital and related financing activities . . . . .	<u>(533,340)</u>	<u>(632,142)</u>	<u>(1,165,482)</u>
Net increase (decrease) in cash and cash equivalents. . . . .	(47,911)	29,598	(18,313)
<b>Cash and cash equivalents at beginning of year. . . . .</b>	<u>277,018</u>	<u>722,099</u>	<u>999,117</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$ 229,107</u>	<u>\$ 751,697</u>	<u>\$ 980,804</u>

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**CITY OF FOSTORIA, OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income . . . . .	\$ 141,654	\$ 354,134	\$ 495,788
Adjustments:			
Depreciation . . . . .	351,596	305,551	657,147
Changes in assets and liabilities:			
Increase in materials and supplies inventory. . . . .	(2,142)	(945)	(3,087)
Decrease (increase) in accounts receivable . . . . .	(5,423)	6,133	710
Decrease in accounts payable . . . . .	(15,414)	(36,129)	(51,543)
Increase in accrued wages and benefits . . . . .	3,953	477	4,430
Increase in pension obligations payable . . . . .	6,862	6,497	13,359
Increase (decrease) in due to other governments . . . . .	3,021	(2,719)	302
Increase in compensated absences payable. . . . .	1,322	24,432	25,754
	<u>\$ 485,429</u>	<u>\$ 657,431</u>	<u>\$ 1,142,860</u>
<b>Noncash investing, capital and financing activities:</b>			
Contributions of capital assets	<u>\$ -</u>	<u>\$ 75,900</u>	<u>\$ 75,900</u>

At December 31, 2005, the Water fund purchased \$6,571 in capital assets on account.  
At December 31, 2006, the Water fund purchased \$5,059 in capital assets on account.  
At December 31, 2005, the Sewer fund purchased \$11,053 in capital assets on account.  
At December 31, 2006, the Sewer fund purchased \$78,482 in capital assets on account.

During 2006, the Water fund entered into a \$75,206 capital lease agreement.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FOSTORIA, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 DECEMBER 31, 2006

	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 17,104	\$ 21,038
Cash in segregated accounts . . . . .	<u>-</u>	<u>35,982</u>
Total assets. . . . .	<u>17,104</u>	<u>\$ 57,020</u>
 <b>Liabilities:</b>		
Due to other governments . . . . .	-	\$ 20,411
Undistributed monies . . . . .	<u>-</u>	<u>36,609</u>
Total liabilities . . . . .	<u>-</u>	<u>\$ 57,020</u>
 <b>Net assets:</b>		
Held in trust for other purposes . . . . .	<u>17,104</u>	
Total net assets . . . . .	<u>\$ 17,104</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, 2006

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Interest . . . . .	<u>\$ 521</u>
Total additions . . . . .	<u>521</u>
<b>Deductions:</b>	
Other . . . . .	<u>875</u>
Total deductions . . . . .	<u>875</u>
Changes in net assets . . . . .	(354)
<b>Net assets at the beginning of the year . . . . .</b>	<u>17,458</u>
<b>Net assets at the end of the year . . . . .</b>	<u><u>\$ 17,104</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## CITY OF FOSTORIA, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### 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 ORGANIZATION*

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

*RELATED ORGANIZATION*

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

During the year ended December 31, 2006, the City collected an income tax for the purpose of supporting the Kaubisch Memorial Public Library. A total of \$50,000 was paid to the Library.

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

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

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

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



## CITY OF FOSTORIA, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

#### C. Fund Accounting

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

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

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

***Infrastructure Improvement*** - This fund accounts for financial resources used for the acquisition, construction or improvement of streets, sewer and water lines.

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

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

**D. Measurement Focus and Basis of Accounting**

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

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**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, 2006 but which were levied to finance year 2007 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, 2006

**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 2006.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**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 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2006.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2006 amounted to \$142,490, which included \$104,493 assigned from other funds of the City.

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

The Seneca County Auditor maintains undistributed permissive tax received. The balance of this account at December 31, 2006 was \$75,288. 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, 2006

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

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

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

**J. Compensated Absences**

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable." 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, 2006**

**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 receivable, debt service and perpetual care 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, 2006

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

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

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

**B. Deficit Fund Balances**

Fund balances at December 31, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Veteran's Chapel Maintenance	\$ 40
CDBG	65,250

The CDBG fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The Veteran's Chapel Maintenance fund had a cash-basis deficit at year-end, as described in Note 3.C. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance of the CDBG fund resulted from adjustments for accrued liabilities.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

**C. Compliance**

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

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Brownfield Grant	\$ 208
Veteran's Chapel Maintenance	40

The general fund is liable for any negative cash balances at December 31, 2006.

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

Contrary to Ohio Revised Code Section 5705.41(B), the City had expenditures exceeding appropriations in various funds.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

Interim monies may be deposited or invested in the following:

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

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

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

**A. Cash in Segregated Accounts**

At year-end, \$35,982 was on deposit in segregated accounts for the Municipal Court and income tax credit card account, and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the balance sheet as "Equity in Pooled Cash and Cash Equivalents".

**B. Cash with Fiscal Agent**

At December 31, 2006, \$75,288 was on deposit with the City's fiscal agent for undistributed permissive tax received. This amount is excluded from the internal cash pool reported on the balance sheet as "Equity in Pooled Cash and Cash Equivalents".

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

**C. Deposits with Financial Institutions**

At December 31, 2006, the carrying amount of all City deposits, including cash with fiscal agent and cash in segregated accounts, was \$3,626,256. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2006, \$3,047,717 of the City’s bank balance of \$3,224,238 was exposed to custodial risk as discussed below, while \$176,521 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

**D. Investments**

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity 6 months or less
STAR Ohio	\$ 1,811,533	\$ 1,811,533
	<u>\$ 1,811,533</u>	<u>\$ 1,811,533</u>

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

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

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 1,811,533	100.00%
	<u>\$ 1,811,533</u>	<u>100.00%</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,626,256
Investments	<u>1,811,533</u>
Total	<u>\$ 5,437,789</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,382,861
Business-type activities	980,804
Private-purpose funds	17,104
Agency funds	<u>57,020</u>
Total	<u>\$ 5,437,789</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported in the fund financial statements:

Transfers to	Transfers from			Total
	General	Infrastructure Improvement	Nonmajor Governmental Funds	
Infrastructure Improvement	\$ 400,000	\$ -	\$ -	\$ 400,000
Nonmajor Governmental Funds	1,164,350	-	65,472	1,229,822
Sewer Fund	<u>-</u>	<u>4,309</u>	<u>-</u>	<u>4,309</u>
	<u>\$ 1,564,350</u>	<u>\$ 4,309</u>	<u>\$ 65,472</u>	<u>\$ 1,634,131</u>

Other governmental funds had transfers of \$65,472 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. Transfers between governmental funds are eliminated on the government-wide financial statements. 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, 2006

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

- B.** Interfund loans receivable/payable consisted of the following at December 31, 2006, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 248

Interfund loans receivable/payable is required to cover negative cash balances at year-end as described in Note 3. C. Interfund loans between governmental funds are eliminated on the government-wide financial statements.

**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 revaluated every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or semi-annually. The first payment for 2006 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

The full tax rates applied to real property and tangible personal property for the fiscal year ended December 31, 2006 were as follows:

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

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

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

The assessed values upon which the 2006 taxes were collected are as follows:

Real Property - 2005 Valuation	<u>Amount</u>
Residential/agricultural	\$ 109,982,410
Commercial/industrial	49,197,500
Public utilities	<u>184,270</u>
Total real property	<u>159,364,180</u>
Tangible Personal Property - 2005 Valuation	
General	25,433,620
Public utilities	<u>7,325,320</u>
Total tangible property	<u>32,758,940</u>
Total valuation	<u>\$ 192,123,120</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 2006 was \$5,825,592 as reported on the fund financial statements.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), accrued interest, loans, special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as “Due from other governments” on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2006, as well as intended to finance fiscal 2006 operations.

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

**Governmental Activities:**

Income taxes	\$ 1,190,218
Real and other taxes	1,185,790
Accounts	68,793
Accrued interest	76
Due from other governments	739,147
Special assessments	415,843
Loans	1,278,543

**Business-Type Activities:**

Accounts	776,467
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Receivables have been disaggregated on the face of the BFS. The only receivables not expected to be collected within the subsequent year are the special assessments and loans, which are collected over the life of the assessments and the loan agreements.

**NOTE 9 - LOANS RECEIVABLE**

The Fostoria City Council created the Revolving Loan Committee and granted them the authority to act on behalf of the City in making loans from the City’s Revolving Loan Fund to qualified applicants within the revolving loan fund geographic area. At the close of 2006, there were loans outstanding to businesses with a total principal balance due of \$1,278,543.



**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 10 - CAPITAL ASSETS**

A. Capital asset activity of the City for the year ended December 31, 2006, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</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	498,469	-	-	498,469
Buildings	7,200,539	-	-	7,200,539
Machinery and equipment	1,709,372	83,401	(10,710)	1,782,063
Vehicles	2,203,858	157,939	(25,353)	2,336,444
Infrastructure	<u>7,142,862</u>	<u>404,397</u>	<u>-</u>	<u>7,547,259</u>
Total capital assets, being depreciated	<u>18,755,100</u>	<u>645,737</u>	<u>(36,063)</u>	<u>19,364,774</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(316,973)	(13,790)	-	(330,763)
Buildings	(5,164,127)	(103,176)	-	(5,267,303)
Machinery and equipment	(1,485,295)	(83,606)	8,908	(1,559,993)
Vehicles	(1,127,118)	(121,577)	25,353	(1,223,342)
Infrastructure	<u>(3,700,066)</u>	<u>(244,902)</u>	<u>-</u>	<u>(3,944,968)</u>
Total accumulated depreciation	<u>(11,793,579)</u>	<u>(567,051)</u>	<u>34,261</u>	<u>(12,326,369)</u>
Total capital assets, being depreciated, net	<u>6,961,521</u>	<u>78,686</u>	<u>(1,802)</u>	<u>7,038,405</u>
Government-type activities capital assets, net	<u>\$ 8,852,177</u>	<u>\$ 78,686</u>	<u>\$ (1,802)</u>	<u>\$ 8,929,061</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

<b><u>Business-Type Activities:</u></b>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 8,374,270	\$ -	\$ -	\$ 8,374,270
Construction in progress	<u>-</u>	<u>778,016</u>	<u>-</u>	<u>778,016</u>
Total capital assets, not being depreciated	<u>8,374,270</u>	<u>778,016</u>	<u>-</u>	<u>9,152,286</u>
<i>Capital assets, being depreciated:</i>				
Buildings	12,427,140	-	-	12,427,140
Machinery and equipment	2,145,648	-	-	2,145,648
Vehicles	662,751	75,206	(11,045)	726,912
Infrastructure	<u>20,985,395</u>	<u>-</u>	<u>-</u>	<u>20,985,395</u>
Total capital assets, being depreciated	<u>36,220,934</u>	<u>75,206</u>	<u>(11,045)</u>	<u>36,285,095</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(4,737,251)	(177,929)	-	(4,915,180)
Machinery and equipment	(1,763,808)	(39,565)	-	(1,803,373)
Vehicles	(365,676)	(68,025)	11,045	(422,656)
Infrastructure	<u>(7,064,880)</u>	<u>(371,628)</u>	<u>-</u>	<u>(7,436,508)</u>
Total accumulated depreciation	<u>(13,931,615)</u>	<u>(657,147)</u>	<u>11,045</u>	<u>(14,577,717)</u>
Total capital assets, being depreciated, net	<u>22,289,319</u>	<u>(581,941)</u>	<u>-</u>	<u>21,707,378</u>
Business-type activities capital assets, net	<u>\$ 30,663,589</u>	<u>\$ 196,075</u>	<u>\$ -</u>	<u>\$ 30,859,664</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

**Governmental Activities:**

General government	\$ 9,822
Security of persons and property	150,512
Public health and welfare	19,284
Transportation	311,474
Community environment	1,295
Leisure time activity	<u>74,664</u>
Total depreciation expense - governmental activities	<u>\$ 567,051</u>

**Business-Type Activities:**

Water	\$ 351,596
Sewer	<u>305,551</u>
Total depreciation expense - business-type activities	<u>\$ 657,147</u>

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

In prior years, the City has entered into capitalized lease agreements for the acquisition of heavy equipment. During 2006, the City entered into three capitalized leases for a backhoe, dump truck and police vehicles.

The terms of the lease agreements provide an option to purchase the equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital assets acquired by lease have been capitalized in the governmental activities statement of net assets in the amount of \$181,895 and in the enterprise funds in an amount of \$299,924. Accumulated depreciation as of December 31, 2006 was \$92,089, leaving a current book value of \$389,730. At inception, capital lease transactions are accounted for as a capital outlay expenditure or capital asset addition and other financing source or non-operating revenue in the appropriate fund, with a corresponding liability is recorded in the governmental activities statement of net assets or enterprise fund, respectively.

Principal and interest payments in 2006 totaled \$71,949 and \$2,732, respectively, in the Capital Improvements fund, which is a nonmajor governmental fund. Principal and interest payments in 2006 totaled \$100,329 and \$10,015, respectively, in the enterprise funds. In the enterprise funds, principal payments have been reclassified to reduce the capital lease liability, and interest payments have been reclassified as interest and fiscal charges expense.

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

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2006:

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2007	\$ 74,681	\$ 112,366
2008	32,202	57,269
2009	<u>13,762</u>	<u>-</u>
Total future minimum lease payments	120,645	169,635
Less: amount representing interest	<u>(10,699)</u>	<u>(10,424)</u>
Present value of future minimum lease payments	<u>\$ 109,946</u>	<u>\$ 159,211</u>

**NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS**

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

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

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

Vacation is accumulated based upon length of service as follows:

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

**NOTE 13 – LONG-TERM OBLIGATIONS**

A. During the fiscal year 2006, the following changes occurred in the City’s governmental long-term obligations:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance at 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/06</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>							
<u>OWPC Loans Payable:</u>							
OPWC - Kelly Storm Sewer	05/08/98	N/A	\$ 101,716	\$ -	\$ (8,138)	\$ 93,578	\$ 8,137
OPWC - Circle Drive	12/1/00	N/A	24,601	-	(2,050)	22,551	2,050
OPWC - CSO#5	12/20/00	N/A	51,384	-	(9,343)	42,041	9,343
Total OPWC loans			<u>177,701</u>	<u>-</u>	<u>(19,531)</u>	<u>158,170</u>	<u>19,530</u>
<u>Special Assessment Bonds:</u>							
Plaza Drive	05/01/88	7.125%	45,000	-	(15,000)	30,000	15,000
Kelly Addition	07/23/98	5.95%	285,784	-	(15,105)	270,679	16,017
Total special assessment bonds			<u>330,784</u>	<u>-</u>	<u>(30,105)</u>	<u>300,679</u>	<u>31,017</u>
<u>Other Long-Term Obligations:</u>							
Capital lease obligations			50,272	131,623	(71,949)	109,946	67,370
Compensated absences payable			1,292,831	362,941	(387,789)	1,267,983	399,423
Total other long-term obligations			<u>1,343,103</u>	<u>494,564</u>	<u>(459,738)</u>	<u>1,377,929</u>	<u>466,793</u>
Total governmental activities			<u>\$ 1,851,588</u>	<u>\$ 494,564</u>	<u>\$ (509,374)</u>	<u>\$ 1,836,778</u>	<u>\$ 517,340</u>

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

**B.** During fiscal year 2006, the following changes occurred in the City’s business-type activities long-term obligations.

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance at 12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/06</u>	<u>Amounts Due in One Year</u>
<b>Business-Type Activities:</b>							
<u>General Obligation Bonds:</u>							
Reservoir refunding bonds	12/01/89	3.80-4.90%	\$ 1,180,000	\$ -	\$ (215,000)	\$ 965,000	\$ 225,000
Total general obligation bonds			<u>1,180,000</u>	<u>-</u>	<u>(215,000)</u>	<u>965,000</u>	<u>225,000</u>
<u>OWDA Loans Payable:</u>							
OWDA loan #3240	10/15/00	4.55%	905,715	-	(42,884)	862,831	44,905
OWDA loan #2262	07/01/95	4.56%	3,192,625	-	(275,361)	2,917,264	288,060
OWDA loan #4426	03/16/06	3.20%	-	366,588	-	366,588	-
Total OWDA loans			<u>4,098,340</u>	<u>366,588</u>	<u>(318,245)</u>	<u>4,146,683</u>	<u>332,965</u>
<u>OPWC Loans Payable:</u>							
Fremont Street Pump Station	05/10/01	N/A	53,810	-	(4,677)	49,133	4,680
CSO #1, Wood County		N/A	34,468	-	(4,309)	30,159	4,309
Reservoir Rehabilitation		N/A	68,515	-	(3,426)	65,089	6,851
Total OPWC loans			<u>156,793</u>	<u>-</u>	<u>(12,412)</u>	<u>144,381</u>	<u>15,840</u>
<u>Other Long-Term Obligations:</u>							
Compensated absences payable			294,477	165,505	(139,751)	320,231	143,944
Capital lease obligations			184,334	75,206	(100,329)	159,211	104,474
Total other long-term obligations			<u>478,811</u>	<u>240,711</u>	<u>(240,080)</u>	<u>479,442</u>	<u>248,418</u>
Total business-type activities			<u>\$ 5,913,944</u>	<u>\$ 607,299</u>	<u>\$ (785,737)</u>	<u>\$ 5,735,506</u>	<u>\$ 822,223</u>

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

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

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

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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

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

Capital leases will be paid from the General Capital Improvement fund, Water fund and Sewer fund.

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

- General Fund
- Street Construction, Maintenance & Repair Fund
- Tax Incentive Review Fund
- Prosecutor's County Contribution Fund
- Termination Benefits Fund
- Water Fund
- Sewer Fund

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

The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund construction projects. The amounts due to the OWDA are payable solely from water and sewer fund revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2006, the City has outstanding borrowings of \$4,146,683. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. OWDA loan #4426 is not closed out as of December 31, 2006. Future annual debt service principal and interest requirements for this loan, which has a balance of \$366,588 at December 31, 2006, is not available.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

D. A summary of the City’s future debt service requirements as of December 31, 2006 follows:

Future Payment Due In	Business-Type OWDA Loans			Business-Type OPWC Loans	Governmental OPWC Loans
	Principal	Interest	Total	Principal Only	Principal Only
2007	\$ 332,965	\$ 169,472	\$ 502,437	\$ 15,840	\$ 19,530
2008	348,367	154,069	502,436	15,840	19,529
2009	364,482	137,954	502,436	15,839	19,530
2010	381,344	121,094	502,438	15,839	19,530
2011	398,983	103,454	502,437	15,838	14,859
2012-2016	1,648,461	236,962	1,885,423	62,845	50,936
2017-2020	305,493	32,891	338,384	2,340	14,256
Total	<u>\$ 3,780,095</u>	<u>\$ 955,896</u>	<u>\$ 4,735,991</u>	<u>\$ 144,381</u>	<u>\$ 158,170</u>

Future Payment Due In	Governmental Special Assessment Bonds			Business-Type General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 31,017	\$ 18,007	\$ 49,024	\$ 225,000	\$ 45,895	\$ 270,895
2008	31,942	16,014	47,956	235,000	35,545	270,545
2009	18,007	13,879	31,886	245,000	25,500	270,500
2010	19,095	12,792	31,887	260,000	12,740	272,740
2011	20,248	11,639	31,887	-	-	-
2012-2016	121,071	38,361	159,432	-	-	-
2017-2018	59,299	4,472	63,771	-	-	-
Total	<u>\$ 300,679</u>	<u>\$ 115,164</u>	<u>\$ 415,843</u>	<u>\$ 965,000</u>	<u>\$ 119,680</u>	<u>\$ 1,084,680</u>

E. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2006, the City’s total voted debt margin was \$20,192,705, and the unvoted debt margin was \$10,566,772; both amounts include available funds of \$19,777.

**NOTE 14 - RISK MANAGEMENT**

The City is exposed to various risks of property and casualty losses, and injuries to employees.

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

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



**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Members can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP’s retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members’ total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 (the latest information available) was \$1,682,589.

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

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

Financial Position

PEP’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004 (the latest information available):

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	(15,994,168)	(13,880,038)
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	(1,068,245)	(540,073)
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

At December 31, 2005 and 2004, respectively, casualty coverage liabilities noted above include approximately \$14.3 million and \$12.0 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.3 million and \$12.0 million of unpaid claims to be billed to approximately 439 member political subdivisions in the future, as of December 31, 2005 and 2004, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$277,000. This payable includes the subsequent year's contribution due if it terminates participation, as described in the last paragraph below.

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

<b><u>Contributions to PEP</u></b>	
2005	\$133,550

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

The City has elected to offer employee medical insurance benefits through a plan provided by Paramount. Employees are required to pay 10% of covered expenses to an annual maximum out-of-pocket of \$500 for single coverage and \$1,000 for family coverage. The City pays 90% of the premium for the plans. For the plan, each month the City contributes \$305.17 for single coverage and \$799.52 for family coverage.

Dental insurance is provided through Guardian Dental with a deductible of \$50 per person per year (\$150 family maximum per year). The City pays an \$11.15 administrative fee to Guardian Dental per month per enrolled employee and reimburses Guardian Dental for actual claims incurred.

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

Vision insurance is provided through Custom Designed Benefits. The City pays a \$1.00 administrative fee to Custom Designed Benefits per month per enrolled employee and reimburses Custom Designed Benefits for actual claims incurred.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past five years. There has been no significant reduction in amounts of insurance coverage from 2005.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 15 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member- directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$417,410, \$388,791, and \$390,579, respectively; 100% has been contributed for 2005 and 2004. The City and plan members did not make any contributions to the member-directed plan for 2006. 72.05% has been contributed for 2006 with the remainder of \$116,662 being reported as a liability within the respective funds.

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

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

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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 portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions to the fund for police and firefighters were \$592,387 for the year ended December 31, 2006, \$529,494 for the year ended December 31, 2005 and \$569,376 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 72.28% has been contributed for 2006 with the remainder of \$164,200 being reported as a liability within the respective funds.

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$137,105. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

**CITY OF FOSTORIA, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund to be allocated to the health care plan.

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

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$105,454 for police and \$105,544 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**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	\$ 60,448
Net adjustment for revenue accruals	74,041
Net adjustment for expenditure accruals	26,726
Net adjustment for other financing sources/(uses)	(13,321)
Adjustment for encumbrances	<u>71,604</u>
GAAP basis	<u>\$ 219,498</u>

**CITY OF FOSTORIA, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**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, 2006.

**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, 2006, is \$1,775,791. 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.

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

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614 W Superior Ave Ste 1242  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the City Council:

We have audited the financial statements of the governmental activities, business activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County (City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 11, 2007. 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 Controls Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-FOST-01 and 2006-FOST-02.

We also noted certain matters that we have reported to management of the City in a separate letter dated July 11, 2007.

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

This report is intended solely for the information and use of the management, the Council and the audit committee and is not intended to be and should not be used by anyone other than these specified parties.

***Charles E. Harris and Associates, Inc.***  
July 11, 2007

**CITY OF FOSTORIA  
SENECA COUNTY  
SCHEDULE OF FINDINGS  
December 31, 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-FOST-01 Noncompliance Citation**

Ohio Revised Code Section 5705.41 (B) states that no subdivision or taxing authority shall make any expenditure of money unless it has been appropriated and unless it has been appropriated as provided in such chapter. In addition, Auditor of State Audit Bulletin 97-010 requires budgetary compliance to be tested at the legal level of control at the end of the year, as well as at various points during the year.

During the year ended December 31, 2006, the following funds' expenditures exceeded total appropriations:

**Special Revenue Funds:**

- Street Construction and Maintenance Fund (\$5,661)
- Police Donation Fund (\$3,450)
- Fire Department Grants Fund (\$38,935)
- Veteran's Chapel Maintenance Fund (\$175)
- Cemetery Podium Project Fund (\$16,156)
- Veteran's Memorial Chapel Fund (\$329)
- Police and Fire Pension Fund (\$8,001)

**Enterprise Fund:**

- Storm Water Management System Fund (\$3,476)

At June 30, 2006, the following fund's expenditures plus encumbrances exceeded total appropriations:

**Special Revenue Funds:**

- DUI IDATF Fund (\$288)
- FEMA Grant Fund (\$24,786)
- Fire Department Grants Fund (\$23,343)
- Revolving Loan UDAG Fund (\$182,264)
- Beautification Fund (\$343)

**Capital Project Fund:**

- Veteran's Memorial Chapel Fund (\$16,423)

**Enterprise Funds:**

- Storm Water Management System Fund (\$40,123)
- Sewer Plant Replacement Fund (\$530,696)

The City realigned their Auditor's Office in June 2006 creating a full-time administrator's position to monitor appropriations and expenditures.

**CITY OF FOSTORIA  
SENECA COUNTY  
SCHEDULE OF FINDINGS – (continued)  
December 31, 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued</b>
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**FINDING NUMBER 2006-FOST-02 Noncompliance Citation**

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

During the year ended December 31, 2006, the following funds' appropriations exceeded total estimated resources:

**General Fund (\$373,009)**

**Special Revenue Funds:**

- Street Construction Maintenance and Repair (\$31,553)**
- Hancock County Park Grant Fund (\$24,649)**
- FEMA Grant Fund (\$24,786)**
- Fire Department Asset Replacement Fund (\$90,374)**
- Fire Department Grants Fund (\$8,535)**
- Airport Grant Fund (\$214,081)**
- Brownfield Grant Fund (\$420,490)**
- Parks & Recreation Fund (\$68,274)**
- CDBG 2004 Fund (\$65,764)**
- CDBG 2003 Fund (\$102,895)**
- City Clean Up Fund (\$24,071)**
- Charter Government Fund (\$22,953)**

**Capital Project Funds:**

- Capital Improvement Fund (\$17,324)**
- Street Maintenance Fund (\$28,228)**
- Sewer & Water Extension Improvement Fund (\$26,800)**

**Enterprise Funds:**

- Water Revenue Fund (\$136,046)**
- Sewer Plant Replacement Fund (\$485,069)**

The City has created a new monthly report comparing budgetary numbers and the certificates of estimated resources with actual appropriations and expenditures.

**CITY OF FOSTORIA  
SENECA COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
December 31, 2006**

<b>FINDING NUMBER</b>	<b>FUNDING SUMMARY</b>	<b>FULLY CORRECTED?</b>	<b>Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain</b>
2005-COF-01	Ohio Revised Code Section 5705.10 - Negative Fund Balances	No	Repeated as Management Letter Comment
2005-COF-02	Ohio Revised Code Section 5705.39 - Total Appropriations Exceeded Estimated Resources	No	Repeated as 2006- FOST-02
2005-COF-03	Ohio Revised Code Section 5705.41 (B) - Expenditures Exceeded Appropriations	No	Repeated as 2006- FOST-01



**Mary Taylor, CPA**  
Auditor of State

**CITY OF FOSTORIA**

**SENECA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 13, 2007**