CITY OF FOSTORIA
SENECA COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002

Auditor of State
Betty Montgomery

CITY OF FOSTORIA
SENECA COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Fostoria, Seneca County, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

We were unable to obtain sufficient evidential matter supporting the compensated absences liability of the Enterprise Fund and the General Long Term Obligation Account Group. The long term Compensated Absences included in the Enterprise Funds totals $254,064 and in the General Long Term Obligation Account Group totals $876,804 for fiscal year 2002.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to obtain the sufficient evidential matter supporting the compensated absences liability of the Enterprise Funds and the General Long Term Obligation Account Group, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Fostoria, Seneca County as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Betty Montgomery

Betty Montgomery
Auditor of State

October 9, 2003

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CITY OF FOSTORIA
SENECA COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2002

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	$ 11,735	$ 1,709,583	$ 22,755	$ 523,071
Equity in pooled cash and cash equivalents - nonexpendable trust fund	-	-	-	-
Cash with fiscal agent	-	17,197	2,537	-
Cash in segregated accounts	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Taxes	2,178,704	125,714	-	-
Accounts	-	-	-	-
Accrued interest	-	17	-	-
Loans	-	196,977	-	-
Mortgages	-	672,800	-	-
Interfund loans	-	247,000	-	-
Special assessments	-	-	111,372	497,419
Due from other funds	10,582	2,391	-	-
Due from other governments	291,503	432,269	-	-
Materials and supplies inventory	-	45,250	-	-
Unamortized bond issue costs	-	-	-	-
Deferred charges	-	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	-
Other Debits:				
Amount available in debt service fund	-	-	-	-
Amount to be provided from special assessments	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	**$ 2,492,524**	**$ 3,449,198**	**$ 136,664**	**$ 1,020,490**

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
$ 400,882	$ 13,268	$ 247,084	$ -	$ -	$ 2,928,378
-	-	19,374	-	-	19,374
-	-	-	-	-	19,734
-	-	39,043	-	-	39,043
-	-	-	-	-	2,304,418
754,374	-	-	-	-	754,374
-	-	-	-	-	17
-	-	-	-	-	196,977
-	-	-	-	-	672,800
-	-	-	-	-	247,000
-	-	-	-	-	608,791
-	-	-	-	-	12,973
-	-	-	-	-	723,772
26,415	-	-	-	-	71,665
55,196	-	-	-	-	55,196
117,321	-	-	-	-	117,321
23,408,958	-	-	14,299,681	-	37,708,639
-	-	-	-	22,755	22,755
-	-	-	-	415,084	415,084
-	-	-	-	1,335,270	1,335,270
$ 24,763,146	**$ 13,268**	**$ 305,501**	**$ 14,299,681**	**$ 1,773,109**	**$ 48,253,581**

(Continued)

CITY OF FOSTORIA
SENECA COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2002
(Continued)

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	$ 6,794	$ 11,804	$ -	$ -
Contracts payable	-	372,563	-	60,457
Accrued wages and benefits	117,219	15,310	-	-
Compensated absences payable	13,819	11,850	-	-
Interfund loans payable	247,000	-	-	-
Pension obligation payable	186,125	17,902	-	-
Deferred revenue	1,762,767	483,307	111,372	497,419
Due to other funds	-	-	-	-
Due to other governments	-	-	-	-
Deposits held and due to others	-	-	-	-
Matured bonds payable	-	-	2,537	-
Special assessment debt with government commitment	-	-	-	-
OWDA loans payable	-	-	-	-
OPWC loans payable	-	-	-	-
General obligation notes payable	-	-	-	-
Refunding bonds payable	-	-	-	-
Obligation under capital lease	-	-	-	-
Total liabilities	2,333,724	912,736	113,909	557,876
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings:				
Unreserved	-	-	-	-
Fund balances:				
Reserved for encumbrances	42,732	117,137	-	47,649
Reserved for principal endowment	-	-	-	-
Reserved for materials and supplies inventory	-	45,250	-	-
Reserved for debt service	-	-	22,755	-
Reserved for loans receivable	-	196,977	-	-
Reserved for mortgages receivable	-	672,800	-	-
Reserved for termination benefits	-	48,984	-	-
Unreserved - undesignated	116,068	1,455,314	-	414,965
Total equity and other credits	158,800	2,536,462	22,755	462,614
Total liabilities, equity and other credits	**$ 2,492,524**	**$ 3,449,198**	**$ 136,664**	**$ 1,020,490**

The notes to the general-purpose financial statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
$ 36,610	$ 579	$ -	$ -	$ -	$ 55,787
5,964	-	-	-	-	438,984
59,854	1,264	-	-	-	193,647
310,056	2,836	-	-	876,804	1,215,365
-	-	-	-	-	247,000
76,364	1,425	-	-	-	281,816
-	-	-	-	-	2,854,865
-	-	12,973	-	-	12,973
-	-	8,763	-	-	8,763
-	-	32,725	-	-	32,725
-	-	-	-	-	2,537
-	-	-	-	415,084	415,084
4,857,712	-	-	-	-	4,857,712
115,241	-	-	-	248,942	364,183
43,801	-	-	-	-	43,801
2,230,000	-	-	-	-	2,230,000
8,820	-	-	-	232,279	241,099
7,744,422	6,104	54,461	-	1,773,109	13,496,341
-	-	-	14,299,681	-	14,299,681
4,076,715	-	-	-	-	4,076,715
12,942,009	7,164	-	-	-	12,949,173
-	-	-	-	-	207,518
-	-	19,374	-	-	19,374
-	-	-	-	-	45,250
-	-	-	-	-	22,755
-	-	-	-	-	196,977
-	-	-	-	-	672,800
-	-	-	-	-	48,984
-	-	231,666	-	-	2,218,013
17,018,724	7,164	251,040	14,299,681	-	34,757,240
$ 24,763,146	**$ 13,268**	**$ 305,501**	**$ 14,299,681**	**$ 1,773,109**	**$ 48,253,581**

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Types	
	General	**Special Revenue**
Revenues:		
Municipal income tax	$ 5,408,022	$ -
Property and other taxes	742,840	113,418
Charges for services	249,616	12,405
Licenses, permits and fees	33,609	-
Fines and forfeitures	-	61,107
Intergovernmental	536,878	1,550,170
Special assessments	-	-
Investment income	57,535	20,287
Other	220,599	12,147
Total revenues	7,249,099	1,769,534
Expenditures:		
Current operations:		
General government	1,458,217	76,845
Security of persons and property	4,001,636	133,898
Public health and welfare	295,714	2,772
Transportation	42,339	769,245
Community environment	70,901	1,196,029
Leisure time activity	1,215	139,259
Capital outlay	-	240,177
Debt service:		
Principal retirement	5,021	-
Interest and fiscal charges	12,717	-
Total expenditures	5,887,760	2,558,225
Excess of revenues over (under) expenditures	1,361,339	(788,691)
Other financing sources (uses):		
Proceeds of loans	-	30,751
Operating transfers in	48,786	668,482
Operating transfers out	(1,793,671)	(70,066)
Total other financing sources (uses)	(1,744,885)	629,167
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(383,546)	(159,524)
Fund balances, January 1	572,960	2,650,736
Increase (decrease) in reserve for inventory	(30,614)	45,250
Fund balances, December 31	**$ 158,800**	**$ 2,536,462**

The notes to the general-purpose financial statements are an integral part of this statement.

Governmental Fund Types		Fiduciary Fund Type	
Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
$ -	$ -	$ -	$ 5,408,022
-	-	-	856,258
-	-	6,490	268,511
-	-	-	33,609
-	-	-	61,107
-	23,813	-	2,110,861
28,525	35,247	-	63,772
-	-	-	77,822
-	9,294	-	242,040
28,525	68,354	6,490	9,122,002
-	-	-	1,535,062
-	-	-	4,135,534
-	-	-	298,486
-	-	-	811,584
-	-	-	1,266,930
-	-	-	140,474
-	662,886	1,642	904,705
17,000	34,492	-	56,513
7,687	24,244	-	44,648
24,687	721,622	1,642	9,193,936
3,838	(653,268)	4,848	(71,934)
-	-	-	30,751
-	860,000	-	1,577,268
-	-	-	(1,863,737)
-	860,000	-	(255,718)
3,838	206,732	4,848	(327,652)
18,917	255,882	226,818	3,725,313
-	-	-	14,636
$ 22,755	**$ 462,614**	**$ 231,666**	**$ 3,412,297**

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

	General		
	Revised Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
Income taxes	$ 5,350,000	$ 5,289,441	$ (60,559)
Property and other taxes	693,137	746,245	53,108
Charges for services	238,700	249,616	10,916
Licenses, permits and fees	34,320	34,336	16
Fines and forfeitures	-	-	-
Intergovernmental	709,160	648,947	(60,213)
Special assessments	-	-	-
Investment income	75,000	57,535	(17,465)
Other	167,450	221,086	53,636
Total revenues	7,267,767	7,247,206	(20,561)
Expenditures:			
Current:			
General government	1,519,785	1,470,210	49,575
Security of persons and property	4,130,073	4,071,525	58,548
Public health and welfare	309,533	292,879	16,654
Transportation	45,490	42,483	3,007
Community environment	84,679	81,499	3,180
Leisure time activity	67	4	63
Capital outlay	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	6,089,627	5,958,600	131,027
Excess of revenues over (under) expenditures	1,178,140	1,288,606	110,466
Other financing sources (uses):			
Proceeds from sale of fixed assets	1,000	-	(1,000)
Proceeds of loans	-	-	-
Operating transfers in	-	48,786	48,786
Operating transfers out	(1,694,708)	(1,793,671)	(98,963)
Advances in	-	397,000	397,000
Advances out	-	-	-
Total other financing sources (uses)	(1,693,708)	(1,347,885)	345,823
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(515,568)	(59,279)	456,289
Fund balance, January 1	(21,332)	(21,332)	-
Prior year encumbrances appropriated	42,820	42,820	-
Fund balance, December 31	**$ (494,080)**	**$ (37,791)**	**$ 456,289**

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
$ -	$ -	$ -	$ -	$ -	$ -
121,638	113,490	(8,148)	-	-	-
42,700	12,405	(30,295)	-	-	-
-	-	-	-	-	-
46,300	61,226	14,926	-	-	-
1,756,050	1,665,727	(90,323)	-	-	-
-	-	-	30,000	28,525	(1,475)
35,700	20,270	(15,430)	-	-	-
189,100	123,453	(65,647)	-	-	-
2,191,488	1,996,571	(194,917)	30,000	28,525	(1,475)
63,351	67,292	(3,941)	-	-	-
134,298	150,408	(16,110)	-	-	-
4,750	2,772	1,978	-	-	-
773,740	773,722	18	-	-	-
1,100,094	1,323,083	(222,989)	-	-	-
187,996	141,399	46,597	-	-	-
240,200	240,177	23	-	-	-
-	-	-	20,000	17,000	3,000
-	-	-	7,689	7,687	2
2,504,429	2,698,853	(194,424)	27,689	24,687	3,002
(312,941)	(702,282)	(389,341)	2,311	3,838	1,527
-	-	-	-	-	-
-	30,751	30,751	-	-	-
703,200	668,482	(34,718)	-	-	-
(70,066)	(70,066)	-	-	-	-
-	-	-	-	-	-
(247,000)	(247,000)	-	-	-	-
386,134	382,167	(3,967)	-	-	-
73,193	(320,115)	(393,308)	2,311	3,838	1,527
1,072,767	1,072,767	-	18,917	18,917	-
455,426	455,426	-	-	-	-
$ 1,601,386	**$ 1,208,078**	**$ (393,308)**	**$ 21,228**	**$ 22,755**	**$ 1,527**

(Continued)

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

	Capital Projects		
	Revised Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
Income taxes	$ -	$ -	$ -
Property and other taxes	-	-	-
Charges for services	-	-	-
Licenses, permits and fees	-	-	-
Fines and forfeitures	-	-	-
Intergovernmental	-	23,813	23,813
Special assessments	30,000	35,247	5,247
Investment income	-	-	-
Other	-	9,294	9,294
Total revenues	30,000	68,354	38,354
Expenditures:			
Current:			
General government	-	-	-
Security of persons and property	-	-	-
Public health and welfare	-	-	-
Transportation	-	-	-
Community environment	-	-	-
Leisure time activity	-	-	-
Capital outlay	927,395	941,133	(13,738)
Debt service:			
Principal retirement	38,799	38,799	-
Interest and fiscal charges	19,937	19,937	-
Total expenditures	986,131	999,869	(13,738)
Excess of revenues over (under) expenditures	(956,131)	(931,515)	24,616
Other financing sources (uses):			
Proceeds from sale of fixed assets	-	-	-
Proceeds of loans	-	-	-
Operating transfers in	860,000	860,000	-
Operating transfers out	-	-	-
Advances in	-	-	-
Advances out	(150,000)	(150,000)	-
Total other financing sources (uses)	710,000	710,000	-
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(246,131)	(221,515)	24,616
Fund balance, January 1	309,141	309,141	-
Prior year encumbrances appropriated	327,339	327,339	-
Fund balance, December 31	**$ 390,349**	**$ 414,965**	**$ 24,616**

The notes to the general-purpose financial statements are an integral part of this statement.

Total (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)
$ 5,350,000	$ 5,289,441	$ (60,559)
814,775	859,735	44,960
281,400	262,021	(19,379)
34,320	34,336	16
46,300	61,226	14,926
2,465,210	2,338,487	(126,723)
60,000	63,772	3,772
110,700	77,805	(32,895)
356,550	353,833	(2,717)
9,519,255	9,340,656	(178,599)
1,583,136	1,537,502	45,634
4,264,371	4,221,933	42,438
314,283	295,651	18,632
819,230	816,205	3,025
1,184,773	1,404,582	(219,809)
188,063	141,403	46,660
1,167,595	1,181,310	(13,715)
58,799	55,799	3,000
27,626	27,624	2
9,607,876	9,682,009	(74,133)
(88,621)	(341,353)	(252,732)
1,000	-	(1,000)
-	30,751	30,751
1,563,200	1,577,268	14,068
(1,764,774)	(1,863,737)	(98,963)
-	397,000	397,000
(397,000)	(397,000)	-
(597,574)	(255,718)	341,856
(686,195)	(597,071)	89,124
1,379,493	1,379,493	-
825,585	825,585	-
$ 1,518,883	**$ 1,608,007**	**$ 89,124**

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

	Proprietary Fund Types	
	Enterprise	**Internal Service**
Operating revenues:		
Charges for services	$ 4,217,444	$ 1,612,292
Other operating revenues	18,329	-
Total operating revenues	4,235,773	1,612,292
Operating expenses:		
Personal services	2,533,017	39,310
Contract services	453,736	3,321
Materials and supplies	320,766	52,236
Depreciation	507,199	-
Claims expense	-	928,487
Other operating expenses	8,126	-
Total operating expenses	3,822,844	1,023,354
Operating income (loss)	412,929	588,938
Nonoperating revenues (expenses):		
Interest expense and fiscal charges	(518,428)	-
Other nonoperating revenues	1,615,961	-
Investment earnings	-	130
Total nonoperating revenues (expenses)	1,097,533	130
Net income (loss) before operating transfers	1,510,462	589,068
Operating transfers in	321,761	19,708
Operating transfers out	(55,000)	-
Net income (loss)	1,777,223	608,776
Addback of depreciation on assets acquired from contributed capital	106,075	-
Retained earnings/(accumulated deficit)/ fund balance, January 1	11,058,711	(601,612)
Retained earnings/fund balance, December 31	12,942,009	7,164
Contributed capital, January 1	5,169,691	-
Disposal of contributed capital	(986,901)	-
Depreciation on fixed assets acquired by contributed capital	(106,075)	-
Contributed capital, December 31	4,076,715	-
Total fund equity, December 31	**$ 17,018,724**	**$ 7,164**

The notes to the general-purpose financial statements are an integral part of this statement.

Fiduciary Fund Type	
Nonexpendable Trust	Total (Memorandum Only)
$ -	$ 5,829,736
-	18,329
-	5,848,065
-	2,572,327
-	457,057
-	373,002
-	507,199
-	928,487
925	9,051
925	4,847,123
(925)	1,000,942
-	(518,428)
-	1,615,961
-	130
-	1,097,663
(925)	2,098,605
-	341,469
-	(55,000)
(925)	2,385,074
-	106,075
20,299	10,477,398
19,374	12,968,547
-	5,169,691
-	(986,901)
-	(106,075)
-	4,076,715
$ 19,374	**$ 17,045,262**

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

	Proprietary Fund Types	
	Enterprise	**Internal Service**
Cash flows from operating activities:		
Cash received from charges for services	$ 4,108,805	$ 1,612,292
Cash received from other operations	20,670	-
Cash payments for personal services	(2,489,175)	(39,687)
Cash payments for contract services	(464,060)	(3,229)
Cash payments for materials and supplies	(283,067)	(51,657)
Cash payments for claims expense	-	(1,526,286)
Cash payments for other expenses	(7,993)	-
Net cash provided (used) by operating activities	885,180	(8,567)
Cash flows from noncapital financing activities:		
Cash received from operating transfers in	321,761	19,708
Cash used in operating transfers out	(55,000)	-
Net cash provided by noncapital financing activities	266,761	19,708
Cash flows from capital and related financing activities:		
Proceeds of loans	70,189	-
Principal payments - capital lease	(10,040)	-
Interest payments - capital lease	(831)	-
Acquisition of capital assets	(136,134)	-
Principal retirement	(811,462)	-
Interest and fiscal charges	(475,202)	-
Net cash used by capital and related financing activities	(1,363,480)	-
Cash flows from investing activities:		
Interest received	-	130
Net cash provided by investing activities	-	130
Net increase (decrease) in cash and cash equivalents	(211,539)	11,271
Cash and cash equivalents at January 1	612,421	1,997
Cash and cash equivalents at December 31	**$ 400,882**	**$ 13,268**

Fiduciary Fund Type	
Nonexpendable Trust	Total (Memorandum Only)
$ -	$ 5,721,097
-	20,670
-	(2,528,862)
-	(467,289)
-	(334,724)
-	(1,526,286)
(925)	(8,918)
(925)	875,688
-	341,469
-	(55,000)
-	286,469
-	70,189
-	(10,040)
-	(831)
-	(136,134)
-	(811,462)
-	(475,202)
-	(1,363,480)
-	130
-	130
(925)	(201,193)
20,299	634,717
$ 19,374	**$ 433,524**

(Continued)

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

	Proprietary Fund Types	
	Enterprise	**Internal Service**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ 412,929	$ 588,938
Adjustments to reconcile income (loss) to net cash provided by (used in) operating activities:		
Depreciation	507,199	-
Changes in assets and liabilities:		
Decrease in materials and supplies inventory	6,659	-
Increase in accounts receivable	(106,298)	-
Decrease in prepayments	6,031	103
Increase in accounts payable	31,540	579
Increase (decrease) in contracts payable	(16,722)	(11)
Decrease in claims payable	-	(597,799)
Increase in accrued wages and benefits	13,446	173
Increase (decrease) in compensated absences payable	12,035	(513)
Increase (decrease) in pension obligation payable	18,361	(37)
Net cash provided (used) by operating activities	**$ 885,180**	**$ (8,567)**

The notes to the general-purpose financial statements are an integral part of this statement.

Fiduciary Fund Type	
Nonexpendable Trust	Total (Memorandum Only)
$ (925)	$ 1,000,942
-	507,199
-	6,659
-	(106,298)
-	6,134
-	32,119
-	(16,733)
-	(597,799)
-	13,619
-	11,522
-	18,324
$ (925)	**$ 875,688**

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1. THE REPORTING ENTITY

The City of Fostoria (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.

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 general purpose 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 financial activities of the following PCUs have been reflected in the accompanying financial statements as follows:

JOINTLY GOVERNED ORGANIZATIONS

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

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

RELATED ORGANIZATIONS

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

During the year ended December 31, 2002, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and reporting practices of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of its significant accounting policies:

A. Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of fund or account groups, each of which is considered a separate account entity. The operations of each fund are accounted for with a set of self-balancing accounts which account for its assets, liabilities, fund equity, revenues, and expenditures/expenses, as appropriate.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts which records cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds themselves because they do not directly affect net expendable available financial resources. The following fund types and account groups are used by the City:

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - This fund accounts for the general operating revenues and expenditures of the City not recorded elsewhere.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Debt Service Funds - These funds are used to account for revenues received and used to pay principal and interest on debt reported to the City's general long-term obligations account group.

Capital Projects Funds - These funds are used to account for the acquisition or construction of major capital assets other than those financed by proprietary funds.

PROPRIETARY FUND TYPES

The proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Fund - This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The following are the City's fiduciary fund types:

Trust and Agency Funds - These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for essentially the same manner as proprietary funds. Agency funds have no measurement focus (i.e., assets equal liabilities), and are presented on a budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is used to present the general fixed assets of the City utilized in its general operations, exclusive of those accounted for in the enterprise funds. General fixed assets include land, buildings, building improvements, furniture and equipment owned by the City.

General Long-Term Obligations Account Group - This account group is used to account for all long-term obligations of the City, except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary and non-expendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental and expendable trust funds use the modified accrual basis of accounting. Proprietary and non-expendable trust funds use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the reporting of expenses and 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 property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal 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: interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fines and forfeitures, fees and special assessments.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenues. 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 the modified accrual basis of accounting, 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.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. On the modified accrual basis of accounting, 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.

C. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code (ORC) 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 resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources. All funds, other than agency funds, legally are 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

A budget of estimated revenues and expenditures 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 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. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. 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 appropriation measure. 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. The encumbered appropriation balance is carried forward to the following fiscal year as authority for expenditure. Budgeted receipts as shown in the accompanying financial statements do not include January 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

APPROPRIATIONS

Appropriation budgets are legally required for each organizational unit by major expenditure object. A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31.

An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. Appropriations lapse at year-end.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated governmental and proprietary funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting, compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting.

Note 18 provides a reconciliation of the budget-basis and GAAP-basis of accounting.

D. Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the combined balance sheet.

During fiscal year 2002, investments were limited to STAR Ohio.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does not 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 December 31, 2002.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2002, interest revenue credited to the general fund amounted to $57,535 which includes $57,124 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City 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 City utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance of this account at December 31, 2002 was $2,537. The Hancock County Auditor maintains undistributed permissive tax received. The balance of this account at December 31, 2002 was $17,197. These accounts are presented on the combined balance sheet as "Cash 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.

E. Inventories of Materials and Supplies

Inventories are valued at cost using the first in, first out method. The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the proprietary funds when used. The total of inventories at year-end is reported as a reservation of fund balance in the governmental funds because it does not represent available, spendable resources.

F. Property, Plant, Equipment, and Depreciation

1. General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and disposals during the year in the general fixed assets account group. The City follows a policy of not capitalizing infrastructure, which is defined as assets that are immovable and of value only to the City, (i.e., roads, bridges, etc.). No depreciation is recognized for assets in the account group. Interest on debt issued to construct general fixed assets is not capitalized in the account group.

2. Enterprise Funds

Property, plant, and equipment reflected in the enterprise funds are stated at cost (or estimated historical cost) and updated for the cost of additions and disposals during the year. Contributed fixed assets are recorded at their fair market value as of the date donated. Depreciation and amortization have been provided on a straight-line basis over the following estimated useful lives:

Description	Estimated Life
Buildings	50
Machinery and equipment	5-20
Improvements other than buildings	15-20
Utility in service	80

The City also capitalizes the cost of major renovations which extend the useful life of an asset or which enable it to perform new or more valuable services. Interest on tax exempt debt issued to construct enterprise fund fixed assets is capitalized, net of interest earned on the proceeds of such debt.

G. 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.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method, i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible 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.

Accumulated vacation and sick leave of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave benefits for employees meeting the above requirements who are paid from proprietary funds are recorded as an expense when earned.

H. Long-term Obligations

Long-term obligations for general obligation bonds, vested sick and vacation leave, and any claims or judgment that are expected to be paid from the governmental funds are shown in the general long-term obligations account group, while those expected to be paid from proprietary funds are shown as a liability of those funds.

I. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.

2. Nonrecurring and non routine permanent transfers of equity are reported as residual equity transfers.

3. Reimbursements from one fund to another (quasi-external transactions) are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Amounts outstanding at year-end are reported on the combined balance sheet as due to/from other funds.

4. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as “interfund loans receivable or payable”.

5. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of interfund transactions is presented in Note 5.

J. Fund Balance Reserves

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. 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 amounts representing material and supply inventories, available debt service equity, termination benefits, encumbrances outstanding, mortgage receivable, principal endowment trust corpus, and loans receivable as reservations of fund balance in the governmental funds.

K. Bond Discounts, Premiums and Issuance Costs

When the proceeds from general obligation bonded debt are placed in a governmental fund type, any bond issuance costs are shown as capital outlay expenditures. Any premium or discount is included in "Other Financing Sources - Bond Proceeds" on the Statement of Revenues, Expenditures and Changes in Fund Balance. The long-term debt that appears in the general long-term obligations account group is reported at the bond's face value.

When the proceeds from general obligation bonded debt are placed in a proprietary fund type, and the debt will be serviced from revenues generated by that fund, then any material issuance costs will be reported as a deferred charge and amortized over the life of the bond using the effective interest method. Any material discounts or premiums are shown as additions to or deductions from the amount of the bond liability, are amortized using the effective interest method, and are reflected as interest income or expense in the Statement of Revenues, Expenses, and Changes in Total Fund Equity.

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. Financial Reporting for Proprietary and Similar Fund Types

The City's financial statements have been prepared in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting". The City accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1999, unless those pronouncements conflict with or contradict GASB pronouncements.

N. Total Columns on General Purpose Financial Statements

Total columns on the General-Purpose Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

Deficit Retained Earnings

Retained earnings at December 31, 2002 included the following individual fund deficit:

Special Revenue Funds	
CDBG	$ 17,388
Airport Grant	$ 2,147
Internal Service Fund	
Service Garage	$ 6,104

This deficit is caused by the application of GAAP and will be funded by anticipated future revenues or other subsidies not recognized or recorded at December 31. The General fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Compliance

The Sewer Revenue Fund had a negative cash balance of $163,202 at December 31, 2002 and at various times during the fiscal year contrary to Ohio Revised Code §5705.10.

The City did not certify funds as required by Ohio Revised Code §5705.41(D).

Appropriations exceeded estimated resources in several funds at year end and at various times during the year contrary to Ohio Revised Code §5705.36 and §5705.39.

4. EQUITY IN POOLED CASH AND INVESTMENTS

LEGAL REQUIREMENTS

The City maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents." Statutes require the classification of monies held by the City into three categories:

Active Monies: those monies required to be kept in a "cash" or "near-cash" status for immediate use by the City. Such monies must by law be maintained either as cash in the City treasury; in depository accounts payable or withdrawable on demand; including negotiable order of withdrawal (NOW) account; or in money market deposit accounts.

Inactive Monies: those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories or as savings or deposit accounts including, but not limited to, passbook accounts.

Interim Monies: 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 must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit accounts including passbook accounts.

Interim moneys may be deposited or invested in the following securities:

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 and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bond and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio).

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.

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

Cash in Segregated Accounts: At year-end, $39,043 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 combined balance sheet as “Equity in Pooled Cash and Cash Equivalents”.

Cash with Fiscal Agent: At year-end, $2,537 was on deposit with the City’s fiscal agent for matured principal and interest on bonded debt and $17,197 was on deposit with City’s fiscal agent for undistributed permissive tax received. This amount is included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as “Equity in Pooled Cash and Cash Equivalents”.

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

Deposits: At year-end, the carrying amount of the City's deposits was $1,007,654 and the bank balance was $1,069,921. Both amounts include payroll clearance accounts, cash in segregated accounts, and amounts held by fiscal agents. Of the bank balance:

1. $171,429 was covered by federal depository insurance; and

2. $898,492 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Fair Value
Amount not subject to categorization:	
Investment in STAR Ohio	$ 1,998,875

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". Cash and cash equivalents are defined to include investments with original maturities of three months or less and funds included within the City's cash management pool.

A reconciliation between the classifications of cash and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Equity in Pooled Cash and Cash Equivalents	Investments
GASB Statement No. 9	$ 2,947,752	$ -
Combined balance sheet reclassifications:		
Investment in STAR Ohio	(1,998,875)	1,998,875
Cash in segregated accounts	39,043	-
Cash with fiscal agent	19,734	-
GASB Statement No. 3	$ 1,007,654	$ 1,998,875

5. INTERFUND TRANSACTIONS

A. The following is a summarized reconciliation of the City's operating transfers for 2002:

	Transfers In	Transfers Out
General Fund	$ 48,786	$ 1,793,671
Special Revenue Funds		
Street Construction and Maintenance	38,482	-
Parks and Recreation	210,000	-
Termination Benefits Reserve	-	70,066
Fire Department Asset Replacement	240,000	-
Beautification	60,000	-
City Clean-up	20,000	-
Community Development	100,000	-
Total Special Revenue Funds	668,482	70,066
Capital Projects Funds		
General Capital Improvement	260,000	-
Street Maintenance Capital	200,000	-
Infrastructure Capital Improvement	200,000	-
Sewer and Water Extension	200,000	-
Total Capital Projects Funds	860,000	-
Enterprise Funds		
Sewer	21,280	55,000
Sewer Plant Replacement	55,000	-
EMS	245,481	-
Total Enterprise Funds	321,761	55,000
Internal Service Funds		
Health Insurance	19,708	-
Total operating transfers	$ 1,918,737	$ 1,918,737

B. Interfund balances at December 31, 2002 which relate to quasi-external transactions, consist of the following individual fund receivables and payables:

	Due from Other Funds	Due to Other Funds
General Fund	$ 10,582	$ -
Special Revenue Funds		
DUI IDATF	210	-
Court Special Projects	2,156	-
Drug Law Enforcement	25	-
Total Special Revenue Funds	2,391	-
Agency Fund		
Municipal Court	-	12,973
Total quasi-external transactions	$ 12,973	$ 12,973

C. Interfund balances, related to items other than charges for goods and services rendered, at December 31, 2002, consist of the following individual fund loans receivable and payable:

	Interfund Receivable	Interfund Payable
General Fund	$ -	$ 247,000
Special Revenue Fund		
Fire Department Asset Replacement	247,000	-
Total	$ 247,000	$ 247,000

6. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value as of the prior January 1, the tax lien date. Assessed values are established by state law at 35 percent of appraised market value, as established by the County Auditor. All real property is required to be revalued every six years. The last revaluation was completed in 1994. Real property taxes are payable annually or semiannually. The first payment for 2002 was due January 1, with the remainder payable June 30.

Public utility real and tangible personal property taxes collected in one calendar year are levied on assessed values as of the prior January 1, the lien date. Public utility tangible personal property currently is assessed at "true value" which is approximately 100 percent of cost. "True value" is established by the State of Ohio. Public utility property taxes are payable on the same dates as real property taxes described previously.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied on the assessed values and at the close of the most recent fiscal year of the taxpayer (for businesses in operation more than one year) or December 31. 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 semiannually.

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 property taxes are assessed on tangible personal property, as well as land and improvements.

The full tax rates applied to real property and tangible personal property for the fiscal year ended December 31, 2002 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 2002 taxes were collected are as follows:

	Seneca County	Wood County	Hancock County
Real Property - 2001 Valuation			
Residential/agricultural	$ 54,331,660	$ 7,620,770	$ 26,676,360
Commercial/industrial	31,778,340	6,224,030	9,283,480
Public utilities	139,560	-	16,050
Totals	86,249,560	13,844,800	35,975,890
Tangible Personal Property - 2001 Valuation			
General	45,733,464	4,515,250	10,515,326
Public utilities	5,209,270	587,530	1,696,550
Totals	50,942,734	5,102,780	12,211,876
Total valuation	$ 137,192,294	$ 18,947,580	$ 48,187,766

The Hancock, Seneca and Wood County Treasurers collect property tax on behalf of all taxing districts within the counties. Taxes are payable to the county in two equal installments in February and July and, if not paid, become delinquent after December 31 of the year they are due. The county auditors periodically remit to the taxing districts their portions of the taxes collected.

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 2002 was $5,408,022.

8. RECEIVABLES

Receivables at December 31, 2002 consisted primarily of taxes, accounts (billings for user charged services), intergovernmental receivables, entitlement or shared revenues and interest on investments.

A summary of principal receivables follows:

General Fund:	
City income taxes:	
Current	$ 597,296
Delinquent	788,078
Property taxes and assessments:	
Current	732,199
Delinquent	61,131
Total taxes and assessments	2,178,704
Due from other governments	291,503
Total General Fund	$ 2,470,207

(Continued)

Special Revenue Funds:	
Property taxes and assessments:	
Current	$ 116,000
Delinquent	9,714
Total taxes and assessments	125,714
Due from other governments	432,269
Total Special Revenue Funds	$ 557,983
Debt Service Fund:	
Special assessments:	
Current	$ 111,372
Total Debt Service Fund	$ 111,372
Capital Projects Fund:	
Special assessments:	
Current	$ 497,419
Total Capital Projects Fund	$ 497,419
Enterprise Fund:	
Accounts:	
Billed - unpaid	$ 343,882
Unbilled	410,492
Total Enterprise Fund	$ 754,374

The above receivable amounts are net of the applicable allowance for uncollectibles which are not material in relation to the respective receivable balances. Residents are billed on a quarterly basis for water and sewer service based upon the actual cycle billings, pro-rated by the various reading dates at the end of the year.

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 2002, there were loans outstanding to four businesses with a total principal balance due of $196,977.

10. PROPERTY, PLANT AND EQUIPMENT

A summary of the changes in general fixed assets during the fiscal year by class is as follows:

	Balance at 01/01/02	Additions	Deletions	Balance at 12/31/02
Land	$ 1,934,936	$ -	$ -	$ 1,934,936
Land improvements	510,049	-		510,049
Buildings	6,952,837	5,774	-	6,958,611
Machinery and equipment	2,411,413	86,265	(10,190)	2,487,488
Vehicles	2,397,552	11,045	-	2,408,597
Total general fixed assets	$ 14,206,787	$ 103,084	$ (10,190)	$ 14,299,681

A summary of proprietary fund property, plant and equipment at December 31, 2002, by class and by individual fund is as follows:

	Water	Sanitary Sewer
Land	$ 3,132,990	$ 256,510
Buildings	5,057,773	7,302,119
Buildings - contributed capital	48,904	26,918
Improvements	-	571
Improvements - contributed capital	3,089	-
Machinery, equipment and furniture	1,239,304	559,552
Machinery, equipment and furniture - contributed capital	458,677	123,057
Vehicles	63,976	167,768
Vehicles - contributed capital	103,083	109,165
Infrastructure	6,028,001	3,727,150
Infrastructure - contributed capital	1,972,650	2,654,092
Subtotal	18,108,447	14,926,902
Less: accumulated depreciation	(5,960,569)	(3,665,822)
Net property, plant and equipment	$ 12,147,878	$ 11,261,080

11. CAPITALIZED LEASES - LESSEE DISCLOSURE

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

The terms of the lease agreement provides an option to purchase the equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Fixed assets acquired by lease have been capitalized in the general fixed assets account group and in the enterprise funds in an amount equal to the present value of the future minimum lease payments at the time of acquisition. At inception, capital lease transactions are accounted for as a capital outlay expenditure or fixed asset addition and other financing source or non-operating revenue in the appropriate fund, and a corresponding liability is recorded in the general long-term obligations account group or enterprise fund, respectively.

Principal payments in 2002 totaled $5,021 in the general fund and $10,040 in the enterprise funds. Capital lease payments in governmental funds have been reclassified on the financial statements to reflect debt principal and interest retired. 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/expenses 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, 2002:

Year Ending December 31,	General Long-Term Obligations	Enterprise
2003	$ 237,482	$ 9,054
Less: amount representing interest	(5,203)	(234)
Present value of future minimum lease payments	$ 232,279	$ 8,820

The City does not have capitalized lease obligations after fiscal year 2003.

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.

A liability for accrued vacation for $570,675 has been recognized. Vacation is accumulated based upon length of service as follows:

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

The accrued vacation and sick leave benefits recorded in the general long-term obligations account group represent the non-current portion of the liability. The current portion has been recorded in the appropriate fund type.

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

A. The following is a summary of the changes in the City's long-term obligations during 2002:

	Issue Date	Interest Rate	Balance at 01/01/02	Additions	Reductions	Balance at 12/31/02
General Long-Term Obligations:						
Ohio Public Works Commission:						
OPWC-Kelly Storm Sewer	05/08/98	N/A	$ 151,981	$ -	$ (13,200)	$ 138,781
OPWC-Circle Drive	12/01/00	N/A	-	30,751	-	30,751
OPWC-CSO#5	12/20/00	N/A	88,752	-	(9,342)	79,410
Total OPWC loans			240,733	30,751	(22,542)	248,942
Special Assessment Bonds:						
Main Street Improvement	06/01/83	11.625%	3,000	-	(3,000)	-
Plaza Drive	05/01/88	7.125%	103,000	-	(14,000)	89,000
Kelly Addition	07/23/98	5.95%	338,034	-	(11,950)	326,084
Total special assessment bonds			444,034	-	(28,950)	415,084

(Continued)

	Issue Date	Interest Rate	Balance at 01/01/02	Additions	Reductions	Balance at 12/31/02
Other Long-Term Obligations:						
Compensated absences payable			779,175	97,629	-	876,804
Capital leases payable			237,300	-	(5,021)	232,279
Total other long-term obligations			1,016,475	97,629	(5,021)	1,109,083
Total general long-term obligations			1,701,242	128,380	(56,513)	1,773,109
Enterprise Fund Obligations:						
General Obligation Bonds:						
Reservoir refunding bonds	12/01/89	3.80-4.90%	1,965,000	-	(185,000)	1,780,000
Sewer refunding bonds	04/21/95	3.00-4.6%	590,000	-	(140,000)	450,000
Total general obligation bonds			2,555,000	-	(325,000)	2,230,000
OWDA Loans Payable:						
OWDA loan	10/15/00	4.66%	1,043,340	-	(38,674)	1,004,666
OWDA loan	07/01/95	4.56%	4,177,905	-	(348,826)	3,829,079
OWDA loan	01/01/99	0-5%	95,871	-	(71,904)	23,967
Total OWDA loans			5,317,116	-	(459,404)	4,857,712
OPWC loan:						
Fremont Street Pump Station	05/10/01	N/A	-	70,189	(2,340)	67,849
CSO #1, Wood County		N/A	51,700	-	(4,308)	47,392
Total OPWC loans			51,700	70,189	(6,648)	115,241
Other Long-Term Obligations:						
Compensated absences payable			298,021	-	(43,957)	254,064
Capital leases payable			18,860	-	(10,040)	8,820
EMS ambulance loan			64,211	-	(20,410)	43,801
Total other long-term obligations			381,092	-	(74,407)	306,685
Total enterprise fund obligations			8,304,908	70,189	(865,459)	7,509,638
Total long-term obligations			$ 10,006,150	$ 198,569	$ (921,972)	$ 9,282,747

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

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

On April 20, 1995, the City defeased 1993 Sewage System Refunding and Improvement Bonds in the amount of $6,160,000 with interest rates from 3.0 percent to 4.6 percent. The bonds are in an irrevocable trust with an escrow agent to provide for all future debt service payments, and considered defeased. The amount outstanding at December 31, 2002 is $5,945,000.

On December 31, 1997, the City defeased 1989 Reservoir #6 Refinanced Bonds in the amount of $2,360,000 with interest rates from 5.9 percent to 7.05 percent. The proceeds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments. The amount outstanding at December 31, 2002 is $1,625,000.

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

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

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

The ambulance loan will be paid from user fees from the EMS fund.

C. A summary of the City's future debt service requirements as of December 31, 2002 follows:

Future Payment	OWDA Loans			OPWC Loans
Due In	Principal	Interest	Total	Principal Only
2003	$ 308,192	$ 219,409	$ 527,601	$ 33,579
2004	297,374	205,062	502,436	33,579
2005	311,129	191,307	502,436	31,048
2006	325,522	176,915	502,437	28,518
2007	340,579	161,858	502,437	28,517
2008-2012	1,954,306	557,876	2,512,182	128,573
2013-2017	1,123,135	135,526	1,258,661	76,307
2018	197,475	14,015	211,490	4,062
Total	$ 4,857,712	$ 1,661,968	$ 6,519,680	$ 364,183

Future Payment Due In	Special Assessment Bonds Principal	Special Assessment Bonds Interest	Special Assessment Bonds Total	General Obligation Bonds Principal	General Obligation Bonds Interest	General Obligation Bonds Total
2003	$ 26,671	$ 25,556	$ 52,227	$ 340,000	$ 102,642	$ 442,642
2004	28,384	23,846	52,230	345,000	87,683	432,683
2005	29,245	21,917	51,162	365,000	72,257	437,257
2006	30,105	19,987	50,092	215,000	55,678	270,678
2007	31,017	18,007	49,024	225,000	45,895	270,895
2008-2012	110,732	64,770	175,502	740,000	72,785	812,785
2013-2017	128,412	31,020	159,432	-	-	-
2018	30,518	1,367	31,885	-	-	-
Total	$ 415,084	$ 206,470	$ 621,554	$ 2,230,000	$ 436,940	$ 2,666,940

Future Payment Due In	EMS - Ambulance Loan Principal	EMS - Ambulance Loan Interest	EMS - Ambulance Loan Total
2003	$ 21,420	$ 2,168	$ 23,588
2004	22,381	1,207	23,588
Total	$ 43,801	$ 3,375	$ 47,176

D. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5 percent 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 percent 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, 2002, the City's total voted debt margin was $21,410,601, and the unvoted debt margin was $11,238,020.

14. SEGMENT INFORMATION FOR PROPRIETARY FUNDS

The City maintains four enterprise funds to account for water and sewer services and emergency medical services. The operations of these Funds are accounted for, financed and recorded in a manner similar to that of private enterprises, whereby it is the City's intent that the costs of providing these goods or services be financed primarily through user charges.

Segment information as of and for the year ended December 31, 2002, is as follows:

	Water	Sewer	Replacement	EMS	Total
Operating revenues	$ 1,942,910	$ 1,962,473	$ -	$ 330,390	$ 4,235,773
Operating expenses before depreciation	1,465,192	1,356,997	47,684	445,772	3,315,645
Depreciation expense	278,079	229,120	-	-	507,199
Operating income/(loss)	199,639	376,356	(47,684)	(115,382)	412,929
Operating transfers:					
In	-	21,280	55,000	245,481	321,761
(Out)	-	(55,000)	-	-	(55,000)
Net income	151,252	1,491,733	7,316	126,922	1,777,223
Contributed capital	1,713,249	2,363,466	-	-	4,076,715
Total assets	12,867,891	11,458,693	329,923	106,639	24,763,146
Bonds and other long term liabilities	2,789,075	4,422,698	-	43,801	7,255,574
Net working capital	462,887	(6,020)	329,923	78,550	865,340
Total equity	9,821,690	6,832,362	329,923	34,749	17,018,724
Encumbrances at 12/31/02	63,054	71,661	3,312	5,281	143,308

15. RISK MANAGEMENT

The City maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 80 percent coinsured.

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

Effective January 1, 2002, the City switched from being self-insured for hospitalization, dental, vision, prescription and medical benefits to obtaining full coverage from an outside carrier.

During fiscal year 2002, the City changed from a self-insurance program for health care benefits to a fully-insured program. The outstanding claims from the self-insurance program at December 31, 2001 were paid in full in fiscal year 2002. Changes in claims activity for the past two fiscal years are as follows:

	Liability at Beginning of Year	Current Year Claims	Claim Payments	Balance at Year End
2002	$ 597,799	$ 928,487	$ (1,526,286)	$ -
2001	301,192	1,720,286	(1,423,679)	597,799

16. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5 percent for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1 percent. Public safety division members contribute at 9 percent. The employer contribution rate for employees other than law enforcement and public safety division was 13.55 percent of covered payroll and 8.55 percent was the portion used to fund pension obligations for 2002. The employer contribution rate for law enforcement and public safety divisions was 16.70 percent of covered payroll and 11.70 percent was the portion used to fund pension obligations for 2002. Required employer contributions are equal to 100 percent of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were $416,220, $424,382, and $440,248, respectively; 70.46 percent has been contributed for 2002 and 100 percent for 2001 and 2000. $122,954, representing the unpaid contribution for 2002, is recorded as a liability within the respective funds.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2002, 2001, and 2000 were $558,227, $557,078, and $512,314, respectively; 73.21 percent has been contributed for 2002 and 100 percent for the years 2001 and 2000. $146,520, representing the unpaid contributions for 2002, is recorded as a liability within the respective funds.

17. POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2002 employer contribution rate for local government employers was 13.55 percent of covered payroll and 5.00 percent was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2002 employer rate was 16.70 percent of covered payroll and 5.00 percent was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was $153,587.

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

As of December 31, 2001 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were $11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $16.4 billion and $4.8 billion, respectively, at December 31, 2001 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2001 (the latest information available) was 402,041.

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

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

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2002, Comprehensive Annual Financial Report.

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5 percent of covered payroll and the total firefighter's employer contribution rate is 24.0 percent of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50 percent and 7.75 percent of covered payroll in 2001 and 2002, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2001 (the latest information available), is 13,174 for police officers and 10,239 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were $132,970 and $72,123, respectively. OP&F's total health care expense for the year ending December 31, 2001 (the latest information available), was $122.299 million, which was net of member contributions of $6.875 million.

18. BUDGETARY BASIS OF ACCOUNTING

The City's budgetary process is based upon accounting for transactions on a cash basis. The differences between the cash basis (budget basis) and the modified accrual basis (GAAP basis) are that revenues are recorded when actually received (budget) as opposed to when susceptible to accrual (GAAP) and the expenditures are recorded when paid (budget) as opposed to when incurred (GAAP). Additionally, the City reflects outstanding encumbrances as expenditures on the budgetary basis of accounting. Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis are as follows:

EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER
(UNDER) EXPENDITURES AND OTHER FINANCING USES

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget basis	$ (59,279)	$ (320,115)	$ 3,838	$ (221,515)
Adjustments:				
Net adjustment for revenue accruals	1,893	(227,037)	-	-
Net adjustment for expenditure accruals	21,314	(360,877)	-	170,141
Net adjustment for other financing sources/(uses) accruals	(397,000)	247,000	-	150,000
Encumbrances	49,526	501,505	-	108,106
GAAP basis	$ (383,546)	$ (159,524)	$ 3,838	$ 206,732

19. CONTINGENT LIABILITIES

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, 2002.

20. 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, 2002 is $2,655,311. 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.

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CITY OF FOSTORIA
SENECA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002

FEDERAL GRANTOR ***Pass Through Grantor*** Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND DEVELOPMENT			
Passed Through Ohio Department of Development			
Community Development Block Grant	AF 01-121-1	14.228	$ 31,530
	AF 99-121-1		1,066
Total U.S. Department of Housing and Development			**32,596**
U.S. DEPARTMENT OF TRANSPORTATION			
Direct Grant			
Airport Improvement Program	3-39-0035-0201	20.106	203,197
Passed Through Ohio Department of Natural Resources			
Recreational Trails Program	RT01 (066)	20.219	68,637
Total U.S. Department of Transportation			**271,834**
U. S. DEPARTMENT OF JUSTICE			
Direct Grant			
Bulletproof Vest Partnership Program	01004838	16.607	6,298
Total U.S. Department of Justice			6,298
Total Federal Awards Expenditures			**$ 310,728**

The accompanying notes are an integral part of this schedule.

CITY OF FOSTORIA
SENECA COUNTY

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
YEAR ENDED DECEMBER 31, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by assets of the businesses. At December 31, 2002, the gross amount of loans outstanding under this program was $196,977.

NOTE C - MATCHING REQUIREMENTS

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

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the City Council:

We have audited the financial statements of the City of Fostoria, Seneca County (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated October 9, 2003, which was qualified for our inability to obtain sufficient evidential matter supporting the Compensated Absences of the Enterprise Funds and the General Long Term Obligation Account Group. Except as discussed in the first sentence, 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 thru 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated October 9, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2002-004.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated October 9, 2003.

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

Betty Montgomery

Betty Montgomery
Auditor of State

October 9, 2003

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

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

To the City Council:

Compliance

We have audited the compliance of the City of Fostoria, Seneca County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002.

Internal Control over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management in a separate letter dated October 9, 2003.

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

Betty Montgomery

Betty Montgomery
Auditor of State

October 9, 2003

CITY OF FOSTORIA
SENECA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2002

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Qualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	Yes
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	No
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	No
(d)(1)(vii)	**Major Programs (list):**	Airport Improvement Grant CFDA # 20.106
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	Yes

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

FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certifications are to be considered null and void.

FINDING NUMBER 2002-001
(Continued)

This section also provides two exceptions to the above requirements:

A. Then and Now Certificate - if no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, at the time of the contract or purchase order, and at the time of the certificate, appropriated and free of any previous encumbrance, Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

B. If the amount involved is less than $1,000, the fiscal officer may authorize it to be paid without the affirmation of Council, if such expenditure is otherwise valid.

Thirty-two percent of the transactions tested were not certified before the invoice date. To improve controls over disbursements, it is recommended that all City disbursements receive prior certification of the City Auditor and that Council periodically review the expenditures made to ensure they are certified by the City Auditor and recorded against appropriations.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Revised Code § 5705.10 states money that is paid into a fund must be used only for the purposes for which such fund has been established. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. The following funds had negative cash balances as follows:

Date	Fund	Amount
December 31, 2002	Sewer Revenue	$ 163,202
November 30, 2002	General	$ 18,284
	Hancock County Park	$ 71,690
	Airport Grant	$ 33,142
	Sewer Revenue	$ 86,531
	EMS	$ 39,388
	Service Garage	$ 5,024
May 31, 2002	Street Maintenance and Repair	$ 25,815
	Airport Grant	$ 7,142
	EMS	$ 14,456
	Service Garage	$ 2,783

FINDING NUMBER 2002-003

Noncompliance Citation

Ohio Revised Code § 5705.38 states that a permanent appropriation measure shall not be adopted until the amended certificate of estimated resources is obtained from the county auditor. Ohio Revised Code §§ 5705.36 and 5705.39 state total appropriations made during the fiscal year from any fund shall not exceed estimated resources. These sections further state that no appropriation measure shall become effective until an amended certificate has been obtained.

Permanent appropriations were adopted by City Council on December 19, 2002; the first amended certificate of estimated resources was not obtained until February 5, 2002; comparison of the appropriations to the certificate of estimated resources indicated appropriations exceed estimated resources as follows:

Fund	Appropriations	Estimated Resources	Variance
Street Maintenance and Repair	$ 487,000	$ 414,349	$ 72,651
Community Development	$ 100,000	$ 95,242	$ 4,758
Beautification	$ 60,000	$ 56,636	$ 3,364
Water Revenue Capital	$ 50,000	$ 38,664	$ 11,336
Service Garage	$ 130,000	$ 126,175	$ 3,825

Supplemental appropriations were adopted by City Council at various times during the year without amending the certificate of estimated resources. Appropriations exceeded estimated resources as follows:

Fund	Date	Appropriations	Estimated Resources	Variance
General	November 20, 2002	$ 7,317,320	$ 7,227,762	$ 89,558
	December 31, 2002	$ 7,737,201	$ 7,227,762	$ 509,439
General Contingency	August 31, 2002	$ 19,708	$ -	$ 19,708
	December 31, 2002	$ 19,708	$ -	$ 19,708
Street Maintenance and Repair	February 28, 2002	$ 453,796	$ 414,349	$ 39,447
	August 31, 2002	$ 459,210	$ 414,349	$ 44,861
	December 31, 2002	$ 515,890	$ 414,349	$ 101,541
State Highway	February 28, 2002	$ 263,598	$ 133,262	$ 130,336
	August 31, 2002	$ 269,983	$ 133,262	$ 136,721
COPS MORE Grant	November 30, 2002	$ 5,683	$ -	$ 5,683
	December 31, 2002	$ 5,683	$ -	$ 5,683

(Continued)

FINDING NUMBER 2002-003
(Continued)

Fund	Date	Appropriations	Estimated Resources	Variance
Issue II Circle Park	August 31, 2002	$ 60,114	$ -	$ 60,114
Community Development	December 31, 2002	$ 100,000	$ 95,242	$ 4,758
Beautification	February 28, 2002	$ 79,000	$ 56,636	$ 22,364
	December 31, 2002	$ 79,000	$ 56,636	$ 22,364
Water Revenue	February 28, 2002	$ 1,796,499	$ 1,790,962	$ 5,537
	July 31, 2002	$ 1,818,166	$ 1,790,962	$ 27,204
	August 31, 2002	$ 1,873,303	$ 1,790,962	$ 82,341
	December 31, 2002	$ 1,919,395	$ 1,790,962	$ 128,433
Water Revenue Capital	December 31, 2002	$ 50,000	$ 38,664	$ 11,336
Sewer Revenue	February 28, 2002	$ 2,040,102	$ 1,917,355	$ 122,747
	July 31, 2002	$ 2,061,769	$ 1,917,355	$ 144,414
	August 31, 2002	$ 2,096,282	$ 1,917,355	$ 178,927
	December 31, 2002	$ 2,183,433	$ 1,917,355	$ 266,078
EMS	February 28, 2002	$ 267,269	$ 224,643	$ 42,626
	August 31, 2002	$ 276,384	$ 224,643	$ 51,741
	December 31, 2002	$ 452,656	$ 224,643	$ 228,013

Actual revenues were sufficient to allow amended certificate to be obtained for the Water Revenue Fund. Actual revenues were not sufficient in the other funds to allow an amended certificate to be obtained.

We recommend the City obtain an amended certificate of estimated resources prior to adopting appropriations and prior to appropriations exceeding estimated resources.

FINDING NUMBER 2002-004

Material Weakness - Compensated Absences

Vacation leave records and balances were not updated to the automated payroll records in the auditor's office. Employees were not always properly "stepped up" to the next vacation accrual rate when allowed by their contract per years of service.

These weaknesses resulted in incorrect vacation leave balances. These incorrect records were used when calculating the City's compensated absences liability.

FINDING NUMBER 2002-004
(Continued)

To ensure accurate accounting over the payroll process, we recommend payroll records for sick and vacation leave in the auditor's office be updated on a bi-weekly basis. In addition, procedures should be implemented to detect when an employee should be "stepped up" to the next level for vacation accrual. We recommend the City payroll department (automated records) reconcile accrual rates and balances with City departments (manual records) on a periodic basis. The individual department reconciliations do not need to be as of December 31, but may be performed as of October or November. This reconciliation should be documented and the necessary adjustments made to the City payroll system or department records.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

CITY OF FOSTORIA
SENECA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2001-20574-001	*Noncompliance Citation ORC § 5705.39* Appropriations exceeded estimated resources	No	Not corrected. Repeated as finding # 2002-003.
2001-20574-002	*Noncompliance Citation ORC § 5705.41(B)* Expenditures exceeded appropriations	No	Partially corrected. Reported in the management letter.
2001-20574-003	*Noncompliance Citation ORC § 5705.41(D)* Lack of prior certification	No	Not corrected. Repeated as finding # 2002-001
2001-20574-004	*Noncompliance Citation Articles 5.3 and 5.4, Appendix C-1 of the Ohio Public Works Commission loan agreement* Insurance policies did not include provisions making any losses payable to the Ohio Public Works Commission	Yes	
2001-20574-005	*Material Weakness – Compensated Absences* balances were not correct	No	Not corrected. Repeated as finding # 2002-004

Auditor of State
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CITY OF FOSTORIA

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 6, 2003