CITY OF FOSTORIA
SENECA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003

Auditor of State
Betty Montgomery

CITY OF FOSTORIA
SENECA COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANT'S 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County, Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

As discussed in Note 10, the City changed its capital assets threshold policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2004, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Ohio Auditor of State

November 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003

The discussion and analysis of the City of Fostoria's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- The total net assets of the City decreased $243,870. Net assets of governmental activities decreased $174,737 or 1.31 percent over 2002 and net assets of business-type activities decreased $69,133 or 0.27 percent over 2002.

- General revenues accounted for $6,729,459 or 78.51 percent of total governmental activities revenue. Program specific revenues accounted for $1,841,778 or 21.49 percent of total governmental activities revenue.

- The City had $8,745,974 in expenses related to governmental activities; $1,841,778 of these expenses was offset by program specific charges for services, grants, or contributions. The remaining expenses of the governmental activities of $6,904,196 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of $6,729,459.

- The general fund had revenues and other financing sources of $7,190,550 in 2003. This represents a decrease of $107,335 from 2002 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled $7,223,718 in 2003, decreased $457,713 from 2002. The net decrease in fund balance for the general fund was $33,168 or 17.84 percent.

- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, decreased in 2003 by $69,133. This increase in net assets was due primarily to charges for services and other operating income being sufficient to cover expenses.

- In the general fund, the actual revenues and other financing sources were $555,213 less than in the final budget and actual expenditures and other financing uses were $204,473 less than the amount in the final budget. These positive variances are the result of the City's conservative budgeting. Budgeted revenues decreased $574,363 from the original to the final budget due primarily to a decline in projected investment income. Budgeted expenditures decreased $483,689 from the original to the final budget due primarily to a decrease in the cost of general government expenditures.

Using this Annual Financial Report

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

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 24.

Governmental Funds

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's only major governmental fund is the general fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 24-28 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activities. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 29-32 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds consist of agency funds and private purpose trust funds. The basic fiduciary fund financial statements can be found on pages 33-34 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 35-77 of this report.

Government-Wide Financial Analysis

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

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

Net Assets

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	$ 7,268,181	$ 1,354,387	$ 8,622,568
Capital assets	9,267,672	31,485,382	40,753,054
Total assets	16,535,853	32,839,769	49,375,622
Liabilities			
Long-term liabilities outstanding	1,742,874	7,030,032	8,772,906
Other liabilities	1,665,171	386,106	2,051,277
Total liabilities	3,408,045	7,416,138	10,824,183
Net Assets			
Invested in capital assets, net of related deb	8,632,528	24,742,770	33,375,298
Restricted	4,670,417	-	4,670,417
Unrestricted	(175,137)	680,861	505,724
Total net assets	$ 13,127,808	$ 25,423,631	$ 38,551,439

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by $38,551,439. At year-end, net assets were $13,127,808 and $25,423,631 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 82.54 percent of total assets. Capital assets include land, improvements other than buildings, buildings, machinery and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2003, were $8,632,528 and $24,742,770 in the governmental and business-type activities respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, $4,670,417, represents resources that are subject to external restriction on how they may be used.

The table below shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues:			
Charges for services	$ 805,442	$ 3,804,185	$ 4,609,627
Operating grants and contributions	1,036,336	-	1,036,336
Total program revenues	1,841,778	3,804,185	5,645,963
General revenues:			
Property taxes	841,746	-	841,746
Income taxes	5,142,673	-	5,142,673
Unrestricted grants and entitlements	524,903	-	524,903
Investment earnings	30,412	-	30,412
Gain on sale of capital assets	-	5,960	5,960
Miscellaneous	189,725	84,570	274,295
Total general revenues	6,729,459	90,530	6,819,989
Total revenues	8,571,237	3,894,715	12,465,952

(Continued)

Change in Net Assets (Continued)

	Governmental Activities	Business-type Activities	Total
Expenses:			
General government	1,259,692	-	1,259,692
Security of persons and property	5,369,098	-	5,369,098
Public health and welfare	421,013	-	421,013
Transportation	1,008,454	-	1,008,454
Community environment	394,268	-	394,268
Leisure time activity	244,523	-	244,523
Other	15,715	-	15,715
Interest and fiscal charges	33,211	-	33,211
Water	-	1,929,274	1,929,274
Sewer	-	2,034,574	2,034,574
Total expenses	8,745,974	3,963,848	12,709,822
Decrease in net assets	$ (174,737)	$ (69,133)	$ (243,870)

Governmental Activities

Governmental activities net assets decreased $174,737 in 2003.

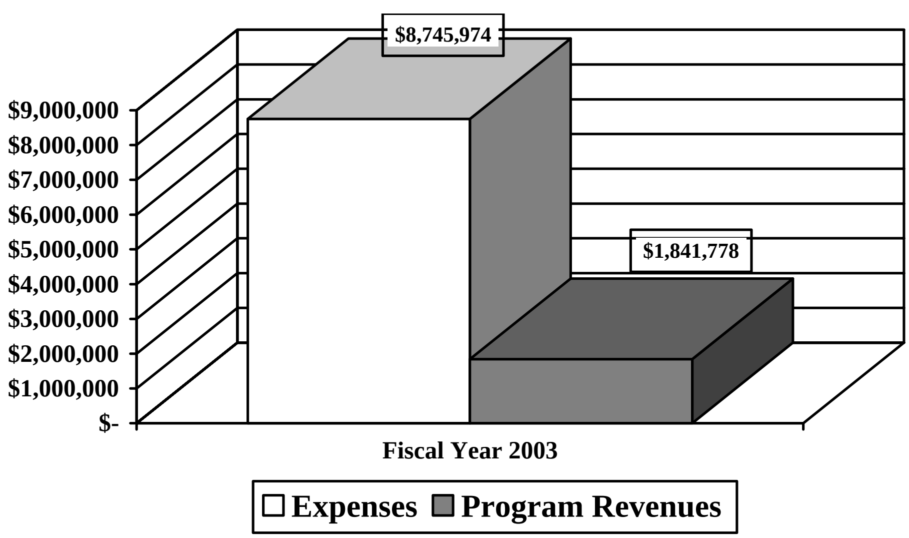
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for $5,369,098 of the total expenses of the City. These expenses were partially funded by $275,604 in direct charges to users of the services and $42,477 in operating grants and contributions. Transportation expenses totaled $1,008,454. Transportation expenses were partially funded by $4,276 direct charges to users of the services and $621,528 in operating grants and contributions.

The state and federal government contributed to the City a total of $1,036,336 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, $621,528 subsidized transportation programs, $372,331 subsidized community environment programs, and $42,477 subsidized security of persons and property activities.

General revenues totaled $6,729,459, and amounted to 78.51 percent of total governmental revenues. These revenues primarily consist of property and income tax revenue of $5,984,419. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up $524,903. In August 2001, the State placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2002.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities. Comparisons to 2002 have not been presented since they are not available.

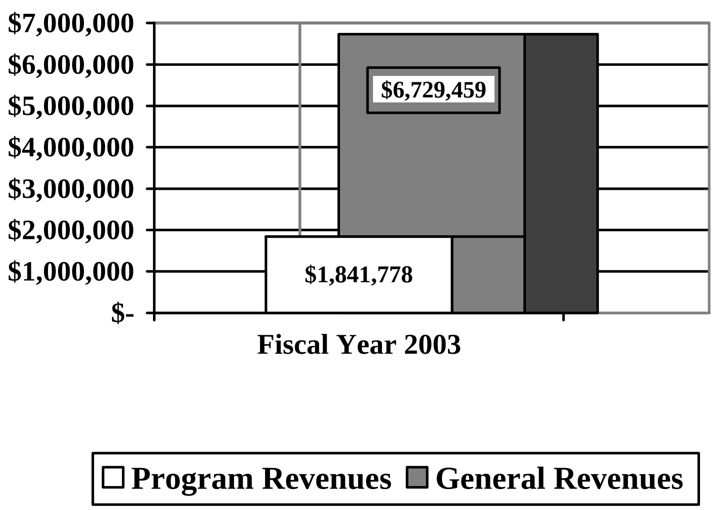
Governmental Activities – Program Revenues vs. Total Expenses



Governmental Activities	Total Cost of Services 2003	Net Cost of Services 2003
Program Expenses:		
General government	$ 1,259,692	$ 906,000
Security of persons and property	5,369,098	5,051,017
Public health and welfare	421,013	415,906
Transportation	1,008,454	382,650
Community environment	394,268	(116,691)
Leisure time activity	244,523	228,417
Other	15,715	15,715
Interest and fiscal charges	33,211	21,182
Total Expenses	$ 8,745,974	$ 6,904,196

The dependence upon general revenues for governmental activities is apparent, with 78.94 percent of expenses supported through taxes and other general revenues.

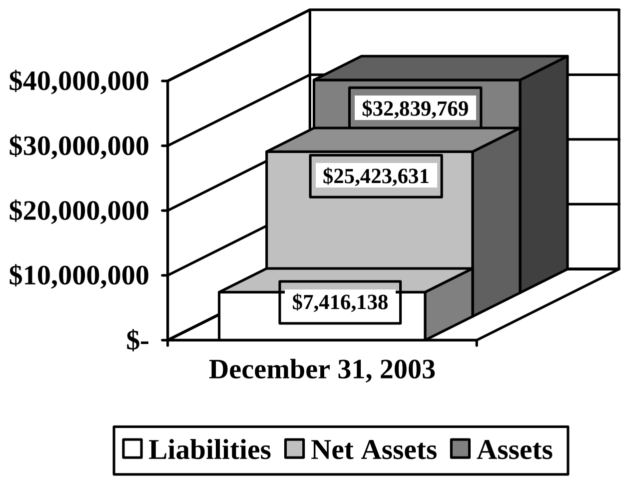
Governmental Activities – General and Program Revenues



Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of $3,804,185, general revenues of $90,530 and expenses of $3,963,848 for 2003. The graph below shows the business-type activities assets, liabilities, and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 24) reported a combined fund balance of $3,617,196 which is $139,766 below last year's total of $3,756,962 (as restated). The December 31, 2002 fund balances have been restated as described in Note 3 to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2003 for all major and nonmajor governmental funds.

	Fund Balances 12/31/03	Fund Balances 12/31/02	Increase (Decrease)
General	$ 152,719	$ 185,887	$ (33,168)
Other nonmajor governmental funds	3,464,477	3,571,075	(106,598)
Total	$ 3,617,196	$ 3,756,962	$ (139,766)

General Fund

The City's general fund balance decreased $33,168, primarily due to transfers out to other funds in the amount of $1,015,347. The table that follows assists in illustrating the revenues of the general fund.

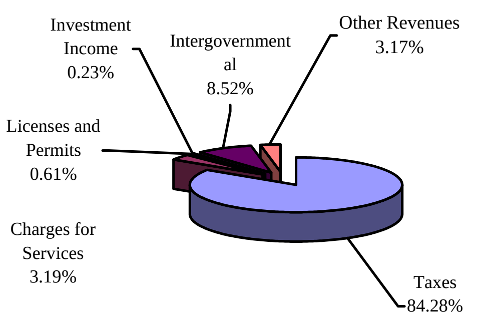
	2003 Amount	2002 Amount	Percentage Change
Revenues			
Taxes	$ 6,018,788	$ 6,150,862	(2.15) %
Charges for services	227,731	249,616	(8.77) %
Licenses and permits	43,914	33,609	30.66 %
Investment income	16,480	57,535	(71.36) %
Intergovernmental	608,150	536,878	13.28 %
Other	226,587	220,599	2.71 %
Total	$ 7,141,650	$ 7,249,099	(1.48) %

Tax revenue represents 84.28 percent of all general fund revenue. Tax revenue decreased slightly by 2.15 percent over prior year. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. The decrease in intergovernmental revenue is due to a decrease in the collections of local government revenue. All other revenue remained comparable to 2002.

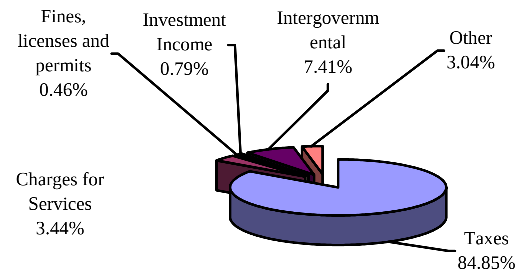
CITY OF FOSTORIA
SENECA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Revenues – Fiscal Year 2003



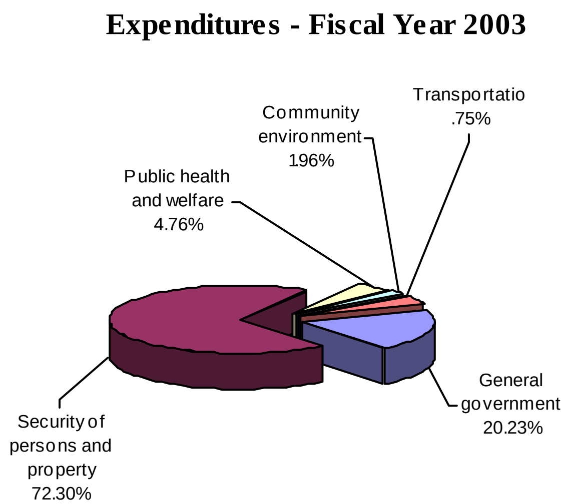
Revenues – Fiscal Year 2002

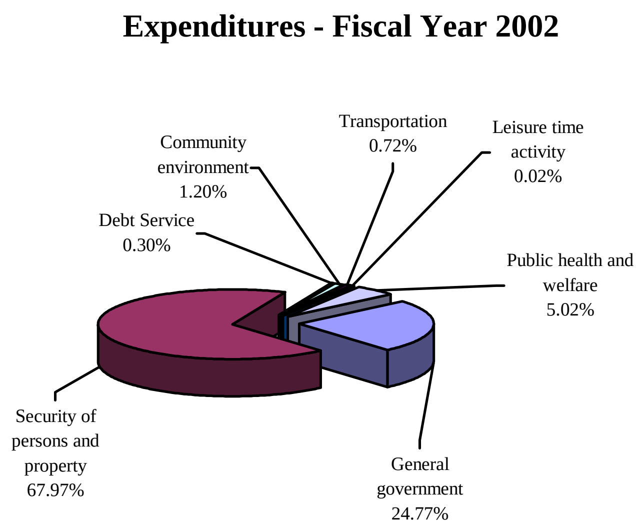


The table that follows assists in illustrating the expenditures of the general fund.

	2003 Amount	2002 Amount	Percentage Change
Expenditures			
General government	$ 1,256,099	$ 1,458,217	(13.86) %
Security of persons and property	4,488,759	4,001,636	12.17 %
Public health and welfare	295,218	295,714	(0.17) %
Community environment	121,610	70,901	71.52 %
Transportation	46,685	42,339	10.26 %
Leisure time activity	-	1,215	(100.00) %
Debt service	-	17,738	(100.00) %
Total	$ 6,208,371	$ 5,887,760	5.45 %

All expenditures remained comparable to 2002. The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services.





Budgeting Highlights

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

Budgetary information is presented for the general fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures, which decreased $483,689 from $9,443,869 to $8,960,180. Actual revenues of $8,584,945 were less than the final budgeted revenues by $555,213. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in $204,473 lower than the final budgeted amounts.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

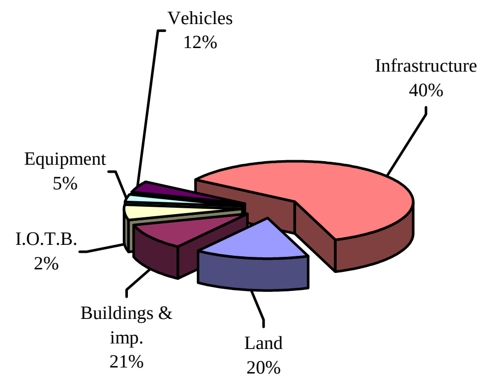
At the end of fiscal 2003, the City had $40,753,054 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, equipment, vehicles, infrastructure and construction in progress. Of this total, $9,267,672 was reported in governmental activities and $31,485,382 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

Capital Assets at December 31
(Net of Depreciation)

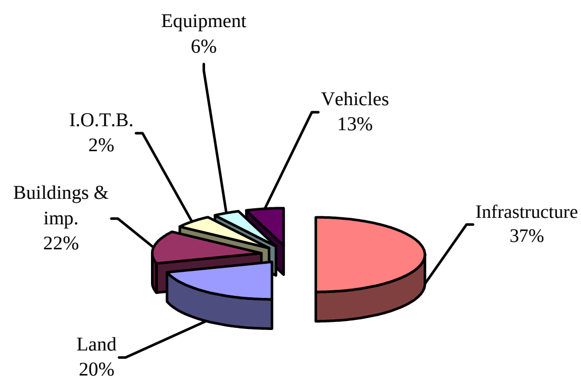
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	$ 1,890,656	$ 1,890,656	$ 8,374,270	$ 8,374,270	$ 10,264,926	$ 10,264,926
Improvements other than buildings	212,676	219,911	-	-	212,676	219,911
Buildings and improvements	1,965,203	2,061,634	8,080,586	8,275,933	10,045,789	10,337,567
Machinery and equipment	446,613	587,259	429,610	483,535	876,223	1,070,794
Vehicles	1,074,586	1,174,511	184,863	145,889	1,259,449	1,320,400
Infrastructure	3,677,938	3,447,759	14,416,053	14,638,117	18,093,991	18,085,876
Totals	$ 9,267,672	$ 9,381,730	$ 31,485,382	$ 31,917,744	$ 40,753,054	$ 41,299,474

The following graphs show the breakdown of governmental capital assets by category for 2003 and 2002.

Capital Assets - Governmental Activities 2003



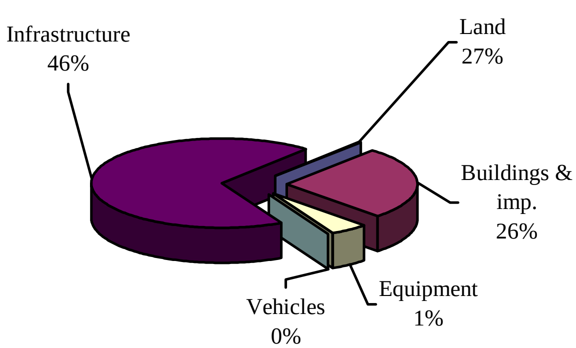
Capital Assets - Governmental Activities 2002



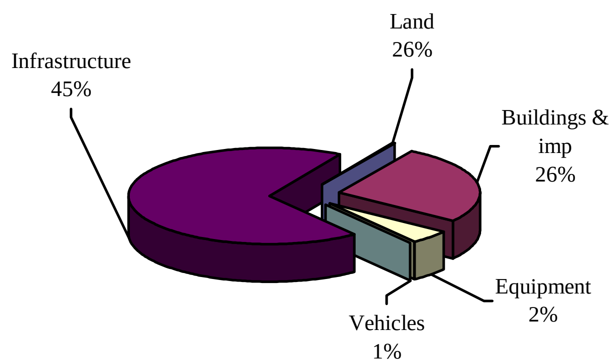
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure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

The following graphs show the breakdown of business-type capital assets by category for 2003 and 2002.

Capital Assets - Business-Type Activities 2003



Capital Assets - Business-Type Activities 2002



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

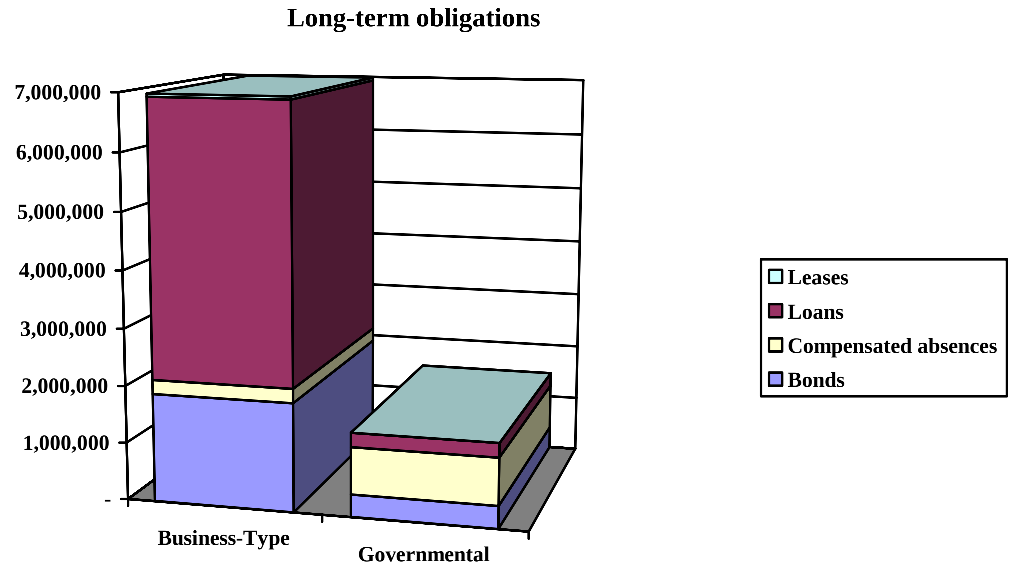
Debt Administration

The City had the following long-term obligations outstanding at December 31, 2003 and 2002:

	Governmental Activities	
	2003	2002
Compensated absences	$ 1,107,730	$ 876,534
Capital lease payable	-	232,279
OPWC loans	224,350	248,942
EMS Ambulance loan	22,381	43,801
Special assessment bonds	388,413	415,084
Total long-term obligations	$ 1,742,874	$ 1,816,640

	Business-type Activities	
	2003	2002
General obligation bonds	$ 1,890,000	$ 2,230,000
OPWC loans	106,254	115,241
OWDA loans	4,693,239	4,857,712
Capital lease payable	53,119	8,820
Compensated absences	287,420	310,056
Total long-term obligations	$ 7,030,032	$ 7,521,829

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



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

Economic Factors and Next Year's Budgets and Rates

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

Over the past few years, the City has experienced what many cities across the State of Ohio have experienced. A slowdown in the overall economy, decreased funding from both the State and Federal level, and general downsizing in industry have created a challenging economic environment for the City. The loss of jobs and reduction in industry has resulted in decreased income tax revenue projections. This decrease in income tax has been factored into the 2004 budget.

These economic factors were considered in preparing the City's budget for fiscal year 2004. Budgeted revenues and other financing sources in the general fund for fiscal year 2004 budget are $6,940,929. With the continuation of conservative budgeting practices, the City's financial position should remain strong in future years.

Contacting the City's Financial Management

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

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF NET ASSETS
DECEMBER 31, 2003

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	$ 2,400,409	$ 634,005	$ 3,034,414
Cash and cash equivalents with fiscal agents	32,127	-	32,127
Receivables (net of allowances for uncollectibles):			
Income taxes	1,280,374	-	1,280,374
Real and other taxes	976,303	-	976,303
Accounts	126,856	550,558	677,414
Accrued interest	14	-	14
Special assessments	569,327	-	569,327
Intergovernmental	1,024,390	-	1,024,390
Loans receivable	176,959	-	176,959
Mortgage loan receivable	642,946	-	642,946
Materials and supplies inventory	38,476	35,542	74,018
Deferred charges	-	90,787	90,787
Unamortized bond issue costs	-	43,495	43,495
Capital assets:			
Land and construction in progress	1,890,656	8,374,270	10,264,926
Depreciable capital assets, net	7,377,016	23,111,112	30,488,128
Total capital assets, net	9,267,672	31,485,382	40,753,054
Total assets	16,535,853	32,839,769	49,375,622
Liabilities:			
Accounts payable	137,172	105,807	242,979
Contracts payable	20,981	-	20,981
Accrued wages and benefits	330,171	101,973	432,144
Due to other governments	16,695	400	17,095
Deferred revenue	910,763	-	910,763
Pension obligation payable	243,929	63,120	307,049
Accrued interest payable	5,360	114,806	120,166
Matured general obligation bonds	100	-	100
Long-term liabilities:			
Due within one year	365,374	731,707	1,097,081
Due in more than one year	1,377,500	6,298,325	7,675,825
Total liabilities	3,408,045	7,416,138	10,824,183
Net assets:			
Invested in capital assets, net of related debt	8,632,528	24,742,770	33,375,298
Restricted for:			
Capital projects	1,263,770	-	1,263,770
Debt service	113,416	-	113,416
Transportation projects	396,217	-	396,217
Revolving loans	1,960,556	-	1,960,556
Permanent fund:			
Nonexpendable	18,449	-	18,449
Other purposes	918,009	-	918,009
Unrestricted	(175,137)	680,861	505,724
Total net assets	$ 13,127,808	$ 25,423,631	$ 38,551,439

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

	Expenses
Governmental Activities:	
General government	$ 1,259,692
Security of persons and property	5,369,098
Public health and welfare	421,013
Transportation	1,008,454
Community environment	394,268
Leisure time activity	244,523
Other	15,715
Interest and fiscal charges	33,211
Total governmental activities	8,745,974
Business-Type Activities:	
Water	1,929,274
Sewer	2,034,574
Total business-type activities	3,963,848
Total primary government	$ 12,709,822

General Revenues:
Property taxes levied for:
General purposes
Police and fire pension
Income taxes levied for:
General purposes
Grants and entitlements not restricted to specific programs
Investment earnings
Gain on sale of capital assets
Miscellaneous

Total general revenues

Change in net assets

Net assets at beginning of year (restated)

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
$ 353,692	$ -	$ (906,000)	$ -	$ (906,000)
275,604	42,477	(5,051,017)	-	(5,051,017)
5,107	-	(415,906)	-	(415,906)
4,276	621,528	(382,650)	-	(382,650)
138,628	372,331	116,691	-	116,691
16,106	-	(228,417)	-	(228,417)
-	-	(15,715)	-	(15,715)
12,029	-	(21,182)	-	(21,182)
805,442	1,036,336	(6,904,196)	-	(6,904,196)
1,908,088	-	-	(21,186)	(21,186)
1,896,097	-	-	(138,477)	(138,477)
3,804,185	-	-	(159,663)	(159,663)
$ 4,609,627	$ 1,036,336	(6,904,196)	(159,663)	(7,063,859)
		726,438	-	726,438
		115,308	-	115,308
		5,142,673	-	5,142,673
		524,903	-	524,903
		30,412	-	30,412
		-	5,960	5,960
		189,725	84,570	274,295
		6,729,459	90,530	6,819,989
		(174,737)	(69,133)	(243,870)
		13,302,545	25,492,764	38,795,309
		$ 13,127,808	$ 25,423,631	$ 38,551,439

CITY OF FOSTORIA
SENECA COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	$ -	$ 2,400,409	$ 2,400,409
Cash and cash equivalents with fiscal agent	-	32,127	32,127
Receivables (net of allowance for uncollectibles):			
Income taxes	1,280,374	-	1,280,374
Real and other taxes	846,235	130,068	976,303
Accounts	-	126,856	126,856
Interfund loans	-	115,986	115,986
Accrued interest	-	14	14
Special assessments	-	569,327	569,327
Due from other governments	219,309	805,081	1,024,390
Loans receivable	-	176,959	176,959
Mortgage loan receivable	-	642,946	642,946
Materials and supplies inventory	-	38,476	38,476
Total assets	$ 2,345,918	$ 5,038,249	$ 7,384,167
Liabilities:			
Accounts payable	$ 74,260	$ 56,379	$ 130,639
Contracts payable	-	20,981	20,981
Accrued wages and benefits	276,601	51,554	328,155
Interfund loan payable	65,035	50,951	115,986
Due to other governments	1,232	15,463	16,695
Deferred revenue	1,573,710	1,338,033	2,911,743
Pension obligation payable	202,361	40,311	242,672
Matured bonds payable	-	100	100
Total liabilities	2,193,199	1,573,772	3,766,971
Fund Balances:			
Reserved for encumbrances	31,331	925,770	957,101
Reserved for materials and supplies inventory	-	38,476	38,476
Reserved for loans	-	176,959	176,959
Reserved for mortgages receivable	-	642,946	642,946
Unreserved, undesignated, reported in:			
General fund	121,388	-	121,388
Special revenue funds	-	1,385,177	1,385,177
Capital projects funds	-	254,315	254,315
Debt service funds	-	22,385	22,385
Permanent fund	-	18,449	18,449
Total fund balances	152,719	3,464,477	3,617,196
Total liabilities and fund balances	$ 2,345,918	$ 5,038,249	$ 7,384,167

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TC
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2003

Total governmental fund balances		$ 3,617,196
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,267,672
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	75,345	
Income taxes	634,255	
Special assessments	556,564	
Intergovernmental revenues	734,816	
Total		2,000,980
An internal service fund is used by management to charge the costs of the service garage to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net assets of the internal service fund are:		(9,806)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Special assessment bonds payable	388,413	
Accrued interest payable	5,360	
EMS loan payable	22,381	
Compensated absences	1,107,730	
OPWC loans payable	224,350	
Total		(1,748,234)
Net assets of governmental activities		$ 13,127,808

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Municipal income taxes	$ 5,296,496	$ -	$ 5,296,496
Property and other taxes	722,292	114,954	837,246
Charges for services	227,731	290,355	518,086
Licenses and permits	43,914	-	43,914
Fines and forfeitures	-	38,446	38,446
Intergovernmental	608,150	742,969	1,351,119
Special assessments	-	64,256	64,256
Investment income	16,480	13,932	30,412
Other	226,587	156,105	382,692
Total revenues	7,141,650	1,421,017	8,562,667
Expenditures:			
Current:			
General government	1,256,099	53,210	1,309,309
Security of persons and property	4,488,759	548,880	5,037,639
Public health and welfare	295,218	57,225	352,443
Transportation	46,685	652,049	698,734
Community environment	121,610	269,613	391,223
Leisure time activity	-	179,486	179,486
Other	-	15,715	15,715
Capital outlay	-	379,258	379,258
Debt service:			
Principal retirement	-	304,962	304,962
Interest and fiscal charges	-	33,664	33,664
Total expenditures	6,208,371	2,494,062	8,702,433
Excess of revenues over (under) expenditures	933,279	(1,073,045)	(139,766)
Other financing sources (uses):			
Transfers in	48,900	1,015,347	1,064,247
Transfers out	(1,015,347)	(48,900)	(1,064,247)
Total other financing sources (uses)	(966,447)	966,447	-
Net change in fund balances	(33,168)	(106,598)	(139,766)
Fund balances at beginning of year (restated).	185,887	3,571,075	3,756,962
Fund balances at end of year	$ 152,719	$ 3,464,477	$ 3,617,196

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Net change in fund balances - total governmental funds	$	(139,766)
Amounts reported for governmental activities in the statement of activities are different because:		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays ($515,995) were less than depreciation expense ($630,053) in the current period.		(114,058)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		8,570
Repayment of bonds, loans and capital lease principal are expenditures in the governmental funds, but the repayments reduces long-term liabilities in the statement of net assets.		304,962
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		453
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These expenses are exclusive of internal service funds activity.		(231,196)
An internal service fund is used by management to charge the costs of the service garage to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		(3,702)
Change in net assets of governmental activities	$	(174,737)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Municipal income taxes	$ 5,829,715	$ 5,300,000	$ 5,249,872	$ (50,128)
Property and other taxes	730,000	812,987	719,334	(93,653)
Charges for services	1,998,684	1,976,171	1,533,579	(442,592)
Licenses and permits	53,127	48,300	39,309	(8,991)
Intergovernmental	627,006	570,033	608,151	38,118
Investment income	27,665	25,079	16,480	(8,599)
Other	287,366	261,255	223,987	(37,268)
Total revenues	9,553,563	8,993,825	8,390,712	(603,113)
Expenditures:				
Current:				
General government:				
Legislative and executive	2,645,981	2,492,249	2,167,730	324,519
Judicial	393,093	385,329	382,337	2,992
Security of persons and property	4,450,697	4,204,975	4,329,047	(124,072)
Public health and welfare	354,514	284,646	291,217	(6,571)
Transportation	47,540	50,582	46,875	3,707
Community environment	144,373	134,728	130,821	3,907
Total expenditures	8,036,198	7,552,509	7,348,027	204,482
Excess of revenues over (under) expenditures	1,517,365	1,441,316	1,042,685	(398,631)
Other financing sources (uses):				
Proceeds from sale of capital assets	1,100	1,000	-	(1,000)
Transfers in	159,858	145,333	194,233	48,900
Transfers out	(1,160,671)	(1,160,671)	(1,160,680)	(9)
Advances out	(247,000)	(247,000)	(247,000)	-
Total other financing sources (uses)	(1,246,713)	(1,261,338)	(1,213,447)	47,891
Net change in fund balance	270,652	179,978	(170,762)	(350,740)
Fund balance at beginning of year (restated)	(24,523)	(24,523)	(24,523)	-
Prior year encumbrances appropriated	49,526	49,526	49,526	-
Fund balance at end of year	$ 295,655	$ 204,981	$ (145,759)	$ (350,740)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003

	Business-Type Activities -Enterprise Funds			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	$ 203,158	$ 430,847	$ 634,005	$ -
Receivables (net of allowance for uncollectibles):				
Accounts	278,040	272,518	550,558	-
Unamortized bond issue costs	21,156	22,339	43,495	-
Deferred charges	90,787	-	90,787	-
Materials and supplies inventory	16,175	19,367	35,542	-
Total current assets	609,316	745,071	1,354,387	-
Noncurrent Assets:				
Capital assets:				
Land and construction in progress	8,121,300	252,970	8,374,270	-
Depreciable capital assets, net	10,142,893	12,968,219	23,111,112	-
Total capital assets, net	18,264,193	13,221,189	31,485,382	-
Total assets	18,873,509	13,966,260	32,839,769	-
Liabilities:				
Current liabilities:				
Accounts payable	33,924	71,883	105,807	6,533
Accrued wages and benefits	50,851	51,122	101,973	2,016
Due to other governments	400	-	400	-
Pension obligation payable	31,656	31,464	63,120	1,257
Accrued interest payable	29,138	85,668	114,806	-
Current portion of compensated absences	25,932	48,992	74,924	-
Current portion of refunding bonds	200,000	145,000	345,000	-
Current portion of capital lease obligation	12,071	-	12,071	-
Current portion of OWDA loans	39,109	251,616	290,725	-
Current portion of OPWC loans	-	8,987	8,987	-
Total current liabilities	423,081	694,732	1,117,813	9,806
Long-term liabilities:				
Refunding bonds	1,390,000	155,000	1,545,000	-
Capital lease obligation	41,048	-	41,048	-
OWDA loans	946,668	3,455,846	4,402,514	-
OPWC loans	-	97,267	97,267	-
Compensated absences	107,560	104,936	212,496	-
Total long-term liabilities	2,485,276	3,813,049	6,298,325	-
Total liabilities	2,908,357	4,507,781	7,416,138	9,806
Net assets:				
Invested in capital assets, net of related debt	15,635,297	9,107,473	24,742,770	-
Unrestricted	329,855	351,006	680,861	(9,806)
Total net assets	$ 15,965,152	$ 9,458,479	$ 25,423,631	$ (9,806)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Operating revenues:				
Charges for services	$ 1,908,088	$ 1,896,097	$ 3,804,185	$ 115,493
Other	28,410	56,160	84,570	-
Total operating revenues	1,936,498	1,952,257	3,888,755	115,493
Operating expenses:				
Personal services	1,027,156	1,021,939	2,049,095	47,727
Contract services	202,652	271,838	474,490	9,195
Materials and supplies	174,952	232,320	407,272	62,273
Depreciation	337,014	308,402	645,416	-
Other	7,866	-	7,866	-
Total operating expenses	1,749,640	1,834,499	3,584,139	119,195
Operating income (loss)	186,858	117,758	304,616	(3,702)
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	(179,634)	(200,075)	(379,709)	-
Gain on disposal of capital assets	5,960	-	5,960	-
Total nonoperating revenues (expenses)	(173,674)	(200,075)	(373,749)	-
Changes in net assets	13,184	(82,317)	(69,133)	(3,702)
Net assets at beginning of year (restated)	15,951,968	9,540,796	25,492,764	(6,104)
Net assets at end of year	$ 15,965,152	$ 9,458,479	$ 25,423,631	$ (9,806)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Cash flows from operating activities:				
Cash received from customers	$ 1,962,144	$ 1,941,580	$ 3,903,724	$ 115,493
Cash received from other operations	28,410	56,160	84,570	-
Cash payments for personal services	(1,036,533)	(978,665)	(2,015,198)	(49,979)
Cash payments for contract services	(189,427)	(351,208)	(540,635)	(2,662)
Cash payments for materials and supplies	(193,683)	(95,870)	(289,553)	(62,852)
Cash payments for other expenses	(7,866)	-	(7,866)	-
Net cash provided by operating activities	563,045	571,997	1,135,042	-
Cash flows from noncapital financing activities:				
Cash received from transfers in	103,850	95,000	198,850	-
Cash payments for transfers out	(103,850)	(95,000)	(198,850)	-
Other non-capital revenues	-	3,078	3,078	-
Net cash provided by noncapital financing activities	-	3,078	3,078	-
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(153,086)		(153,086)	-
Principal retirement on bonds	(190,000)	(150,000)	(340,000)	-
Interest paid on bonds	(82,385)	(20,255)	(102,640)	-
Principal retirement on loans	(18,889)	(154,571)	(173,460)	-
Interest paid on loans	(23,409)	(87,303)	(110,712)	-
Principal retirement on capital lease obligations	(15,470)	(8,820)	(24,290)	-
Interest paid on capital lease obligations	(4,409)	-	(4,409)	-
Proceeds from sale of capital assets	5,960	-	5,960	-
Net cash used in capital and related financing activities	(481,688)	(420,949)	(902,637)	-
Net increase in cash and cash equivalents	81,357	154,126	235,483	-
Cash and cash equivalents at beginning of year	121,801	276,721	398,522	-
Cash and cash equivalents at end of year	$ 203,158	$ 430,847	$ 634,005	$ -

(Continued)

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 186,858	$ 117,758	$ 304,616	$ (3,702)
Adjustments:				
Depreciation	337,014	308,402	645,416	-
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(4,717)	(4,410)	(9,127)	-
Increase in accounts receivable	54,056	45,483	99,539	-
Increase (decrease) in accounts payable	1,687	64,878	66,565	5,954
Increase in contracts payable	(2,576)	(3,388)	(5,964)	-
Increase in accrued wages and benefits	24,954	27,115	52,069	752
Decrease in pension obligations payable	1,673	2,491	4,164	(168)
Increase in due to other governments	400	-	400	-
Increase (decrease) in compensated absences payable	(36,304)	13,668	(22,636)	(2,836)
Decrease in deferred revenue	-	-	-	-
Increase (decrease) in claims payable	-	-	-	-
Net cash provided by operating activities	$ 563,045	$ 571,997	$ 1,135,042	$ -

Non-cash transactions:

At December 31, 2002, the Water fund purchased no capital assets on account At December 31, 2003, the Water fund purchased $3,363 in capital assets on account.

At December 31, 2002, the Sewer fund purchased no capital assets on account At December 31, 2003, the Sewer fund purchased $36,862 in capital assets on account.

During 2003, the Water fund entered into a $68,589 capital lease agreement.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2003

	Private Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	$ 16,972	$ 15,244
Cash in segregated accounts	-	37,272
Due from other governments	-	34,798
Total assets	16,972	87,314
Liabilities:		
Due to other funds	-	17,479
Due to other governments	-	44,475
Undistributed monies	-	25,360
Total liabilities	-	$ 87,314
Net assets:		
Held in trust for other purposes	16,972	
Total net assets	$ 16,972	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF FOSTORIA
SENECA COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	Private Purpose Trust
Net assets at the beginning of the year	$ 16,972
Net assets at the end of the year	$ 16,972

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

1. DESCRIPTION OF THE CITY

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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

JOINTLY GOVERNED ORGANIZATIONS

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

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, 2003, the City collected an income tax for the purpose of supporting the Kaubisch Memorial Public Library. A total of $50,000 was paid to the Library.

B. Basis of Presentation - Fund Accounting

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

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

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

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

C. Fund Accounting

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

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

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

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

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

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are a private-purpose trust fund and agency funds.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

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

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

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

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that were not 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. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgetary Data

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

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

Segregated cash accounts are not included in the budgetary presentation because they are not controlled by the City and the departments do not adopt separate budgets. Advances-in and advances-out are not required to be budgeted since they represent a cash flow resource. Budgetary modifications may only be made by resolution of the City Council.

Tax Budget - During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the City Council.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the legal level of budgetary control. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the City Council during the year.

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

G. Cash and Cash Equivalents

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

During 2003, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2003.

Interest income is distributed to the funds according to statutory requirements. Interest revenue earned and credited to the general fund during 2003 amounted to $16,480, all of which was assigned from other funds of the City.

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

The City utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance of this account at December 31, 2003 was $100. The Hancock County Auditor maintains undistributed permissive tax received. The balance of this account at December 31, 2003 was $32,027. These accounts are presented on the financial statements as “Cash and Cash Equivalents with Fiscal Agent”. The City has segregated bank accounts for Municipal Court monies and income tax paid by credit card held separate from the City’s central bank account. These interest bearing depository accounts are presented on the combined balance sheet as “Cash in Segregated Accounts” since they are not required to be deposited into the City treasury.

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

H. Inventories of Materials and Supplies

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

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City has changed its capitalizaton threshold from $500 to $5,000, see Note 10 for details. The City's infrastructure consists of bridges, curbs, sidewalks, storm sewers, streets, alleys, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Improvements other than buildings	5 - 30 years	N/A
Buildings	10 - 40 years	50 years
Machinery and Equipment	3 - 15 years	3 - 25 years
Vehicles	3 - 25 years	5 – 15 years
Infrastructure	20 - 50 years	30 - 80 years

J. Compensated Absences

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

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets.

M. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the BFS.

N. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. The City reports a reservation of fund balance for amounts representing encumbrances outstanding, loans, mortgages receivable, and materials and supplies inventory in the governmental fund financial statements.

O. Estimates

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

P. Contributions of Capital

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

Q. Net Assets

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

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the City has implemented GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*", GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*", GASB Statement No. 41, "*Budgetary Comparison Schedule - Perspective Differences*", and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*". At December 31, 2002, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes, and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the City uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

The government-wide financial statements split the City's programs between business-type and governmental activities. The beginning net asset amount for the business-type activities equals fund equity of the proprietary funds from last year except as noted below. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Restatement of Fund Balance - The EMS fund, Cemetery Trust, Health Insurance, Beard Flower Trust, and Endowment Pillars funds have been reclassified as governmental funds to properly reflect their intended purposes in accordance with the standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balances as previously reported at December 31, 2002. A prior period adjustment was necessary to correct a liability reported in error as "Contracts Payable" in the Fire Equipment Fund, Special Revenue Fund Type; this liability was also reported in the General Long Term Debt Account Group as "Capital Lease Payable".

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the City's governmental fund balances as previously reported:

	General	Other Governmental Funds	Total
Fund balance December 31, 2002	$ 158,800	$ 3,021,831	$ 3,180,631
Prior Period Adjustment	-	227,372	227,372
Fund reclassifications	13,268	317,616	330,884
GASB Interpretation No. 6 adjustments	13,819	4,256	18,075
Restated fund balance January 1, 2003	$ 185,887	$ 3,571,075	$ 3,756,962

The transition from governmental fund balance to net assets of the governmental activities is also presented.

Restated fund balance December 31, 2002	$ 3,756,962
GASB Statement No. 34 adjustments:	
Capital assets	9,381,730
Internal service fund	(6,104)
Accrued interest payable	(5,813)
Long-term liabilities	(1,816,640)
Long-term (deferred assets)	1,992,410
Governmental activities net assets, December 31, 2002	$ 13,302,545

Business-Type Activities - Restatement of Fund Equity - Adjustments were required to report a change in the City's capital asset threshold from $500 to $5,000 and to correct errors and omissions in amounts previously reported. Certain land and infrastructure capital assets were not reported in prior years. In addition, a prior period adjustment is required to correct transactions erroneously recorded in the Water Fund rather than the Sewer Fund. These adjustments had the following effect on fund equity as previously reported:

Business-Type Activities	Water	Sewer	Total Enterprise Funds
Fund equity at December 31, 2002	$ 9,821,692	$ 7,162,285	$ 16,983,977
Prior Period Adjustment	(110,000)	110,000	-
Capital Asset Adjustments:			
Due to change in threshold	$ (87,676)	$ (85,028)	(172,704)
Due to asset not previously reported	6,327,952	2,353,539	8,681,491
Total adjustment for capital assets	6,240,276	2,268,511	8,508,787
Restated fund equity at January 1, 2003	$ 15,951,968	$ 9,540,796	$ 25,492,764

Internal Service Fund - Restatement of Fund Equity - The fund equity of the internal service funds have been restated due to the reclassification of the Health Insurance Fund to governmental funds. This fund reclassification had the following effect on fund equity as previously reported:

	Total Internal Service Funds
Internal Service Funds:	
Fund equity at December 31, 2002	$ 7,164
Fund reclassification	(13,268)
Restated fund equity at January 1, 2003	$ (6,104)

B. Compliance

The City had negative cash fund balances in several funds 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 throughout the year and at year end contrary to Ohio Revised Code §§ 5705.36, 5705.38, and 5705.39.

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

Interim deposits are deposits in interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts, including passbook accounts. Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank,

Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

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

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

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

7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25 percent of interim monies available for investment at any one time. Bankers' acceptances must mature in two hundred seventy days or less and must be eligible for purchase by the Federal Reserve System. Commercial paper must be issued by a corporation incorporated under the laws of the United States or any state and must be rated in the highest category by two nationally recognized rating agencies.

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

1. Bonds of the State of Ohio;

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

3. Obligations of the City.

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

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

Cash in Segregated Accounts: At year-end, $37,272 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. This amount is reported on the Statement of Fiduciary Net Assets as “Cash in Segregated Accounts”.

Cash with Fiscal Agent: At December 31, 2003, $100 was on deposit with the City’s fiscal agent for matured principal and interest on bonded debt and $32,027 was on deposit with the City’s fiscal agent for undistributed permissive tax received. These amounts are reported on the statement of net assets as “Cash and cash equivalents with fiscal agent”.

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

Deposits: At year-end, the carrying amount of the City’s deposits was $1,033,441 and the bank balance was $1,105,209. Both amounts include payroll clearance accounts, cash in segregated accounts, and amounts held by fiscal agents. Of the bank balance:

1. $173,365 was covered by federal depository insurance; and

2. $931,844 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Fair Value
Amount not subject to categorization:	
STAR Ohio	$ 2,102,588

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	$ 3,066,630	$ -
Investments of the cash management pool:		
STAR Ohio	(2,102,588)	2,102,588
Cash in segregated accounts	37,272	-
Cash with fiscal agent	32,127	-
GASB Statement No. 3	$ 1,033,441	$ 2,102,588

5. INTERFUND TRANSFERS

A. Interfund transfers for the year ended December 31, 2003, consisted of the following, as reported in the fund financial statements:

	Transfers from		
Transfers to	General	Nonmajor Special Revenue	Total
General Fund	$ -	$ 48,900	$ 48,900
Nonmajor Special Revenue	415,335	-	415,335
Nonmajor Capital Projects	600,012	-	600,012
	$ 1,015,347	$ 48,900	$ 1,064,247

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

B. Interfund loans consisted of the following at December 31, 2003, as reported on the fund financial statements:

Receivable Fund	Payable Fund	Amount
Nonmajor governmental funds	General fund	$ 65,035
	Nonmajor governmental funds	50,951
		$ 115,986

The interfund loans are required to cover negative cash balances at year-end. See Note 3.B.

6. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property tax revenues received in 2003 represent the collection of 2002 taxes. Real property taxes received in 2003 were levied after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2003 represent the collection of 2002 taxes. Public utility real and tangible personal property taxes received in 2003 became a lien on December 31, 2001, were levied after October 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2003 taxes. Tangible personal property taxes received in 2003 were levied after October 1, 2002, on the true value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2003, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, and are not intended to finance 2003 operations.

On the full accrual basis, collectible delinquent real property taxes have been recorded as a receivable and revenue. On the modified accrual basis, the revenue is deferred.

The full tax rates for all City operations for the year ended December 31, 2003 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 assessed values upon which 2003 property tax receipts were based are as follows:

	Seneca County	Wood County	Hancock County
Real Property			
Residential/agricultural	$ 56,689,430	$ 8,025,170	$ 27,066,670
Commercial/industrial	31,872,650	6,518,070	9,338,760
Public utilities	139,190	-	15,500
Totals	88,701,270	14,543,240	36,420,930
Tangible Personal Property			
General	42,340,034	3,559,153	10,553,221
Public utilities	5,363,920	599,570	1,699,040
Totals	47,703,954	4,158,723	12,252,261
Total valuation	$ 136,405,224	$ 18,701,963	$ 48,673,191

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 for 2003 was $5,296,496 as reported on the fund financial statements.

8. RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), accrued interest, special assessments, intergovernmental receivables arising from grants, entitlements, and shared revenue and loans.

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

The only receivables not expected to be collected within the subsequent year are the special assessments, loans, and mortgage loans which are collected over the life of the assessments and the loan agreements.

Governmental Activities:		
Income taxes	$	1,280,374
Real and other taxes		976,303
Accounts		126,856
Accrued interest		14
Special assessments		569,327
Due from other governments		1,024,390
Loans		176,959
Mortgage loans		642,946
Business-Type Activities:		
Accounts		550,558

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 2003, there were loans outstanding to businesses with a total principal balance due of $176,959.

10. CAPITAL ASSETS

A. The capital asset balances of the governmental activities and business-type activities have been restated due to the reporting of infrastructure in governmental activities, due to an increase in the capital asset threshold from $500 to $5,000 and the reporting of errors and omissions in the prior year in business-type activities. In addition, capital assets of the internal service funds are reported as a component of governmental activities.

Governmental Activities:	Balance 12/31/02	Adjustments	Restated Balance 12/31/02
Land	$ 1,934,936	$ (44,280)	$ 1,890,656
Improvements other than buildings	510,049	(19,378)	490,671
Buildings	6,958,611	(36,041)	6,922,570
Machinery and equipment	2,487,488	(724,671)	1,762,817
Vehicles	2,408,597	(2,123)	2,406,474
Infrastructure	-	6,411,246	6,411,246
Less: accumulated depreciation	-	(10,502,704)	(10,502,704)
Total	$ 14,299,681	$ (4,917,951)	$ 9,381,730
Business-Type Activities:			
Land	$ 3,389,500	$ 4,984,770	$ 8,374,270
Improvements other than buildings	3,660	(3,660)	-
Buildings	12,435,714	(8,574)	12,427,140
Machinery and equipment	2,380,590	(235,780)	2,144,810
Vehicles	443,992	(3,262)	440,730
Infrastructure	14,381,893	6,214,314	20,596,207
Less: accumulated depreciation	(9,626,391)	(2,439,022)	(12,065,413)
Total	$ 23,408,958	$ 8,508,786	$ 31,917,744

B. Capital asset activity for the year ended December 31, 2003, was as follows:

Governmental Activities:	Restated Balance 12/31/02	Additions	Disposals	Balance 12/31/03
Capital assets, not being depreciated:				
Land	$ 1,890,656	$ -	$ -	$ 1,890,656
Total capital assets, not being depreciated	1,890,656	-	-	1,890,656
Capital assets, being depreciated:				
Improvements other than buildings	490,671	7,798	-	498,469
Buildings	6,922,570	-	-	6,922,570
Machinery and equipment	1,762,817	10,841	-	1,773,658
Vehicles	2,406,474	21,511	(48,311)	2,379,674
Infrastructure	6,411,246	475,845	-	6,887,091
Total capital assets, being depreciated	17,993,778	515,995	(48,311)	18,461,462
Less: accumulated depreciation:				
Improvements other than buildings	(270,760)	(15,033)	-	(285,793)
Buildings	(4,860,936)	(96,431)	-	(4,957,367)
Machinery and equipment	(1,175,558)	(151,487)	-	(1,327,045)
Vehicles	(1,231,963)	(121,436)	48,311	(1,305,088)
Infrastructure	(2,963,487)	(245,666)	-	(3,209,153)
Total accumulated depreciation	(10,502,704)	(630,053)	48,311	(11,084,446)
Total capital assets, being depreciated, net	7,491,074	(114,058)	-	7,377,016
Governmental activities capital assets, net	$ 9,381,730	$ (114,058)	$ -	$ 9,267,672

CITY OF FOSTORIA
SENECA COUNTY

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

Business-Type Activities:	Restated Balance 12/31/02	Additions	Disposals	Balance 12/31/03
Capital assets, not being depreciated:				
Land	$ 8,374,270	$ -	$ -	$ 8,374,270
Total capital assets, not being depreciated	8,374,270	-	-	8,374,270
Capital assets, being depreciated:				
Buildings	12,427,140	-	-	12,427,140
Machinery and equipment	2,144,810	-	-	2,144,810
Vehicles	440,730	68,589	(41,430)	467,889
Infrastructure	20,596,207	144,464	-	20,740,671
Total capital assets, being depreciated	35,608,887	213,053	(41,430)	35,780,510
Less: accumulated depreciation:				
Buildings	(4,151,207)	(195,347)	-	(4,346,554)
Machinery and equipment	(1,661,275)	(53,925)	-	(1,715,200)
Vehicles	(294,841)	(29,615)	41,430	(283,026)
Infrastructure	(5,958,090)	(366,528)	-	(6,324,618)
Total accumulated depreciation	(12,065,413)	(645,415)	41,430	(12,669,398)
Total capital assets, being depreciated, net	23,543,474	(432,362)	-	23,111,112
Business-type activities capital assets, net	$ 31,917,744	$ (432,362)	$ -	$ 31,485,382

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

Governmental Activities:	
General government	$ 35,418
Security of persons and property	200,396
Public health and welfare	11,500
Transportation	303,359
Community environment	1,295
Leisure time activity	78,085
Total depreciation expense - governmental activities	$ 630,053

11. CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior years, the City has entered into capitalized lease agreements for the acquisition of heavy equipment and a fire engine. During 2003, the City entered into a capitalized lease for additional heavy equipment.

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

Principal payments in 2003 totaled $232,279 in the other governmental funds and $24,290 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.

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, 2003:

Year Ending December 31,	Enterprise
2004	$ 15,471
2005	15,470
2006	15,470
2007	15,470
Total future minimum lease payments	61,881
Less: amount representing interest	(8,762)
Present value of future minimum lease payments	$ 53,119

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

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 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 with at least 10 years of service or any age with twenty years service.

<u>Firefighters</u>: 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 with at least 10 years of service or any age with twenty years service.

Vacation is accumulated based upon length of service as follows:

Fireman	Vacation Credit	Local 811 and Non-Union	Vacation Credit
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

Police	Vacation Credit
After 1 year	80 Hours
After 5 years	96 Hours
After 8 years	120 Hours
After 10 years	136 Hours
After 12 years	160 Hours
After 15 years	176 Hours
After 18 years	200 Hours
After 20 years	216 Hours
After 25 years	240 Hours

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

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

A. The balance of the City's governmental activities long-term obligations at December 31, 2002 has been restated. The compensated absences liability decreased from $876,804 to $876,534 due to an error in the amount reported in the prior year and due to the implementation of GASB Interpretation No. 6 as described in Note 3.A. In addition, the EMS loan has now been included as a component of governmental activities long-term obligations. The effect on the total governmental activities long-term obligations at January 1, 2003 was an increase from $1,773,109 to $1,816,640. During the fiscal year 2003, the following changes occurred in the County's governmental long-term obligations:

	Issue Date	Interest Rate	Restated Balance at 12/31/02	Additions	Reductions	Balance at 12/31/03	Due Within One Year
Governmental Activities:							
Ohio Public Works Commission:							
OPWC - Kelly Storm Sewer	05/08/98	N/A	$ 126,130	$ -	$ (8,138)	$ 117,992	$ 8,137
OPWC - CSO#2,3,4	05/08/98	N/A	12,651	-	(5,062)	7,589	5,062
OPWC - Circle Drive	12/01/00	N/A	30,751	-	(2,050)	28,701	2,050
OPWC - CSO#5	12/20/00	N/A	79,410	-	(9,342)	70,068	9,342
Total OPWC loans			248,942	-	(24,592)	224,350	24,591
Special Assessment Bonds:							
Plaza Drive	05/01/88	7.13%	89,000	-	(14,000)	75,000	15,000
Kelly Addition	07/23/98	5.95%	326,084	-	(12,671)	313,413	13,384
Total special assessment bonds			415,084	-	(26,671)	388,413	28,384
Other Long-Term Obligations:							
Compensated absences payable			876,534	552,459	(321,263)	1,107,730	290,018
EMS ambulance loan			43,801	-	(21,420)	22,381	22,381
Capital leases payable		4.95%	232,279	-	(232,279)	-	-
Total other long-term obligations			1,152,614	552,459	(574,962)	1,130,111	312,399
Total governmental activities			$ 1,816,640	$ 552,459	$ (626,225)	$ 1,742,874	$ 365,374

	Issue Date	Interest Rate	Restated Balance at 12/31/02	Additions	Reductions	Balance at 12/31/03	Due Within One Year
Business-Type Activities:							
General Obligation Bonds:							
Reservoir refunding bonds	12/01/89	3.80-4.90%	$ 1,780,000	$ -	$ (190,000)	$ 1,590,000	$ 200,000
Sewer refunding bonds	04/21/95	3-4.60%	450,000	-	(150,000)	300,000	145,000
Total general obligation bonds			2,230,000	-	(340,000)	1,890,000	345,000
OWDA Loans Payable:							
OWDA loan #3240	10/15/00	4.66%	1,004,666	-	(18,889)	985,777	39,109
OWDA loan #2262	07/01/95	4.56%	3,829,079	-	(121,617)	3,707,462	251,616
OWDA loan #2727	01/01/99	0-5%	23,967	-	(23,967)	-	-
Total OWDA loans			4,857,712	-	(164,473)	4,693,239	290,725
OPWC loan:							
Fremont Street Pump Station	05/10/01	N/A	67,849	-	(4,679)	63,170	4,679
CSO #1, Wood County		N/A	47,392	-	(4,308)	43,084	4,308
Total OPWC loans			115,241	-	(8,987)	106,254	8,987
Other Long-Term Obligations:							
Compensated absences payable			310,056	152,221	(174,857)	287,420	74,924
Capital leases payable			8,820	68,589	(24,290)	53,119	12,071
Total other long-term obligations			318,876	220,810	(199,147)	340,539	86,995
Total business-type activities			$ 7,521,829	$ 220,810	$ (712,607)	$ 7,030,032	$ 731,707

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, 2003 is $5,915,000.

On December 31, 1997, the City defeased 1989 Reservoir #6 Refinanced Bonds in the amount of $2,360,000 with interest rates from 6.45 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, 2003 is $1,435,000.

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 (a nonmajor governmental fund).

C. A summary of the City's future debt service requirements as of December 31, 2003 follows:

Future Payment Due In	Business-Type OWDA Loans Principal	Business-Type OWDA Loans Interest	Business-Type OWDA Loans Total	Business-Type OPWC Loans Principal Only	Governmental OPWC Loans Principal Only
2004	$ 290,725	$ 211,711	$ 502,436	$ 8,987	$ 24,591
2005	304,174	198,262	502,436	8,988	22,058
2006	318,244	184,192	502,436	8,987	19,530
2007	332,965	169,472	502,437	8,987	19,529
2008	348,367	154,069	502,436	8,987	19,530
2009-2013	1,998,997	513,188	2,512,185	44,940	74,292
2014-2018	939,989	109,753	1,049,742	16,378	44,820
2019 - 2020	159,778	9,414	169,192	-	-
Total	$ 4,693,239	$ 1,550,061	$ 6,243,300	$ 106,254	$ 224,350

Future Payment Due In	Governmental Special Assessment Bonds Principal	Governmental Special Assessment Bonds Interest	Governmental Special Assessment Bonds Total	Business-Type General Obligation Bonds Principal	Business-Type General Obligation Bonds Interest	Business-Type General Obligation Bonds Total
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	31,942	16,014	47,956	235,000	35,545	270,545
2009-2013	101,555	57,877	159,432	505,000	37,240	542,240
2014-2018	136,165	23,266	159,431	-	-	-
Total	$ 388,413	$ 180,914	$ 569,327	$ 1,890,000	$ 334,298	$ 2,224,298

Future Payment Due In	EMS - Ambulance Loan Principal	EMS - Ambulance Loan Interest	EMS - Ambulance Loan Total
2004	$ 22,381	$ 1,107	$ 23,488
Total	$ 22,381	$ 1,107	$ 23,488

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, 2003, the City's total voted debt margin was $21,419,325 (including available funds of $22,385), and the unvoted debt margin was $11,207,921.

14. RISK MANAGEMENT

A. Comprehensive

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

The Government belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures with A- VII or better rated carriers, except for a 5 percent portion the Plan retains. With policies effective September 1, 2003 and after, The Plan pays the lesser of 5 percent or $25,000 for casualty losses up to the coverage limit and the lesser of 5 percent or $50,000 for property losses up to the coverage limit. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003.

	2003
Assets	$ 5,402,167
Liabilities	(1,871,123)
Members' Equity	$ 3,533,047

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

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

B. Workers Compensation

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

C. Health and Dental Insurance

The City has elected to offer employee medical insurance benefits through a plan provided by United Healthcare of Ohio. The current United Healthcare plan provides a medical plan with no deductible and total out-of-pocket costs of $500 for single coverage and $1,000 for family coverage. Employees are required to share in the costs of their medical plan along with the City. Each month the City contributes $279.45 for single coverage and $732.13 for family coverage for each employee. In addition, all employees choosing family coverage must pay $81.34 per month and $31.04 for single coverage. Dental insurance is provided through Guardian Dental. The City pays an administrative fee of $10.11 per employee and the monthly claims. Dental insurance is offered to Union Local 811 employees thru the Ohio AFSCME Care Plan; the City pays the premium of $26 per employee.

15. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 for all three plans 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 2003. 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 2003. 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, 2003, 2002, and 2001 were $424,041, 416,220, and $424,382, respectively; 76 percent has been contributed for 2003 and 100 percent for 2002 and 2001. $103,626, representing the unpaid contribution for 2003, 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, 2003, 2002, and 2001 were $500,527, $558,227 and $557,078, respectively; 70 percent has been contributed for 2003 and 100 percent for the years 2002 and 2001. $148,971, representing the unpaid contributions for 2003, is recorded as a liability within the respective funds.

16. POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (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 the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The OPERS law enforcement program is separated into two divisions, law enforcement, and public safety, with separate employee contribution rates and benefits. The 2003 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 2003 employer rate was 16.70 percent of covered payroll and 5.00 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, included a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. The City's contribution actually made to fund postemployment benefits was $156,473. As of December 31, 2002 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were $10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 billion, respectively.

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

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

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

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2003, Comprehensive Annual Financial Report.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "*Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers*". The Ohio Revised Code provides 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 7.75 percent of covered payroll in 2003. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2002 (the latest information available), is 13,527 for police officers and 10,396 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were $119,225 and $64,668, respectively. OP&F's total health care expense for the year ending December 31, 2001 (the latest information available), was $141.028 million, which was net of member contributions of $12.623 million.

17. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures/expenses and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statement for the General Fund.

Net Change in Fund Balance	
Budget basis	$ (170,762)
Net adjustment for revenue accurals	(1,249,062)
Net adjustment for expenditure accurals	2,219,612
Net adjustment for other sources/(uses)	(913,680)
Adjustment for encumbrances	80,724
GAAP basis	$ (33,168)

18. CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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, 2003.

B. Litigation

The City is currently not involved in litigation that the City's legal counsel anticipates a loss.

19. CONDUIT DEBT

The City has issued conduit debt on behalf of the Fostoria Community Hospital for the purpose of acquiring property and equipment and for capital improvements. Fostoria Community Hospital will repay the debt through lease payments of the property financed. Upon repayment of the debt, the ownership of the acquired property transfers to the Fostoria Community Hospital. The aggregate amount on the debt outstanding as of December 31, 2003, is $2,454,446. The City is not obligated in any manner for repayment of the debt. Accordingly, the debt is not reported as a liability in the accompanying financial statements.

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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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fostoria, Seneca County, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2004, wherein we noted the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and that the City changed its capital assets threshold policy. 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 tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of

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findings as items, 2003-001, 2003-002, 2003-003, and 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated November 30, 2004

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item, 2003-005.

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 do not 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 the City's management in a separate letter dated November 30, 2004

This report is intended for the information and use of the audit committee, management, and City Council, 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

November 30, 2004

CITY OF FOSTORIA
SENECA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003

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

FINDING NUMBER 2003-001

Ohio Revised Code § 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying the amount required for the order or contract 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 encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate –** If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City Council can authorize the drawing of a warrant for the payment of the amount due. The City Council has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

   Amounts of less than $3,000 ($1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City Council.

2. **Blanket Certificate –** Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to $5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

FINDING NUMBER 2003-001
(Continued)

3. **Super Blanket Certificate –** The City Council may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Thirty percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

To improve controls over disbursements, we recommend that all City disbursements receive prior certification of the fiscal officer that the funds are or will be available prior to an obligation being incurred.

FINDING NUMBER 2003-002

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, 2003	General	$ 80,962
	Airport Grant	2,035
	Sewer Revenue	86,428
	EMS	48,916
October 31, 2003	General	$ 240,075
	Tax Incentive Review	485
	Water Revenue	9,727
	Sewer Revenue	175,409
	EMS	31,370
	Service Garage	9,570

FINDING NUMBER 2003-002
(Continued)

Date	Fund	Amount
June 30, 2003	General	$ 451,920
	Street Construction, Maintenance and Repair	164,230
	Wood County Park Grant	3,345
	Airport Grant	2,147
	Sewer Revenue	319,586
	Water Plant Upgrade	27,703
	EMS	72,657
	Service Garage	16,357

We recommend deficit fund balances be prohibited. Further, advances should be made prior to fund cash balances becoming deficit.

FINDING NUMBER 2003-003

Ohio Revised Code § 5705.38 provides that on or about the first day of each year, the taxing authority of each subdivision or other taxing unit shall pass an appropriation measure, and thereafter during the year it may pass any supplemental appropriation measures as it finds necessary, based on the revised tax budget or the official certificate of estimated resources or amendments of the certificate. If it desires to postpone the passage of the annual appropriation measure until an amended certificate is received based on the actual balances, it may pass a temporary appropriation measure for meeting the ordinary expenses of the taxing unit until no later than the first day of April of the current year, and the appropriations made in the temporary measure shall be chargeable to the appropriations in the annual appropriation measure for that fiscal year when passed.

Ohio Revised Code § 5705.39 provides that total appropriations from each fund shall not exceed the total of the estimated revenues available for expenditure as certified by the budget commission. In addition, no appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Permanent appropriations were adopted by City Council on December 17, 2002; the first amended certificate of estimated resources was not obtained until March 4, 2003; comparison of the appropriations to the certificate of estimated resources indicated appropriations exceed estimated resources as follows:

FINDING NUMBER 2003-003
(Continued)

Fund		Estimated Resources		Appropriations		Variance
Street Construction, Maintenance and Repair	$	484,486	$	682,772	$	(198,286)
EMS		388,119		389,705		(1,586)
Water Revenue Capital		49,592		50,000		(408)
Water Plant Upgrade		77,948		84,597		(6,649)

We recommend that temporary appropriations be adopted until the amended certificate of estimated resources is received from the budget commission and that appropriations be limited to the amount of estimated resources.

FINDING NUMBER 2003-004

Ohio Revised Code § 5705.38 provides that the taxing authority of each subdivision or other taxing unit it may pass any supplemental appropriation measures as it finds necessary, based on the official certificate of estimated resources or amendments of the certificate.

Ohio Revised Code § 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that the revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code § 5705.36(A)(3) provides that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater than the amount included in an official certificate and the legislative authority intends to appropriate and expend the excess revenue, the fiscal officer shall certify the amount of the excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the excess. Ohio Revised Code § 5705.36(A)(4) provides that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

FINDING NUMBER 2003-004
(Continued)

Ohio Revised Code § 5705.39 provides that total appropriations from each fund shall not exceed the total of the estimated revenues available for expenditure as certified by the budget commission. In addition, no appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

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	Estimated Resources	Appropriations	Variance
General	August 31, 2003	$ 7,615,591	$ 7,741,356	$ (125,765)
	October 31, 2003	7,351,366	7,741,356	(389,990)
	December 31, 2003	7,351,366	7,410,654	(59,288)
Street Construction, Maintenance and Repair	August 31, 2002	$ 630,486	$ 682,772	$ (52,286)
	October 31, 2003	642,563	682,772	(40,209)
	November 30, 2003	642,563	647,076	(4,513)
	December 31, 2003	642,563	647,076	(4,513)
EMS	May 31, 2003	$ 388,119	$ 408,705	$ (20,586)
	October 31, 2003	368,380	408,705	(40,325)
	November 30, 2003	368,380	455,396	(87,016)
	December 31, 2003	368,380	455,396	(87,016)
Water Revenue	November 30, 2003	$ 2,023,886	$ 2,058,478	$ (34,592)
	December 31, 2003	2,023,886	2,058,478	(34,592)
Water Plant Upgrade	December 31, 2003	$ 77,948	$ 84,597	$ (6,649)
Sewer Revenue	November 30, 2003	$ 2,192,665	$ 2,211,648	$ (18,983)
	December 31, 2003	2,192,665	2,211,648	(18,983)
Sewer Revenue Capital	July 31, 2003	$ 50,691	$ 95,500	$ (44,809)

FINDING NUMBER 2003-004
(Continued)

Actual revenues were not sufficient to allow an amended certificate to be obtained. Failure to limit appropriations could result in expenditures exceeding available resources.

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

FINDING NUMBER 2003-005

Vacation Leave Records

The City's Personnel Policy and union agreements outlines vacation accruals based on years of service and state that employees shall submit requests for leave to the department head. The personnel policy and union agreements further specify the amount of leave that may be carried over from one calendar year to the next calendar year. Each department maintains their own vacation records and at the end of the year submits the balances to the City Auditor for calculating the compensated absences liability. Leave forms were not always completed or were incomplete and were not signed by the department head indicating approval. These weaknesses limit the control and accountability over vacation earned and used and increases the possibility of errors and irregularities and allows the City to be susceptible to fraud, waste, and abuse. We recommend the City's computerized payroll system be utilized to maintain vacation balances which would assist the City in monitoring carryover limits, amounts earned are in line with policy and union agreement and amounts used are supported by leave forms. Leave forms should be completed and maintained for all vacation leave taken and signed by department head to indicate approval.

CITY OF FOSTORIA
SENECA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-001	Noncompliance citation ORC § 5705.41(D) - lack of prior certification	No	Not corrected. Repeated as finding #2003-001.
2002-002	Noncompliance citation ORC § 5705.10 - negative cash balances.	No	Not corrected. Repeated as finding #2003-002.
2002-003	Noncompliance citation ORC §§ 5705.38, 5705.36, and 5705.39 - permanent appropriation measure shall not be adopted until amended certificate of estimated resources is obtained form the county auditor and appropriations shall not exceed estimated revenues.	No	Not corrected. Repeated as finding #2003-003.
2002-004	Material Weakness - Compensated Absences -- incorrect vacation leave balances.	No	Partially corrected. Revised and reported as reportable condition as finding #2003-005.

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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
DECEMBER 28, 2004