CITY OF FOSTORIA
SENECA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

CITY OF FOSTORIA
SENECA COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Fostoria (the City) as of and for the year ended December 31, 2001. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

We were unable to obtain sufficient evidential matter supporting the compensated absences liability of the General Long-Term Obligation Account Group. The Compensated Absences included on the General Long-Term Obligation account group comprise $779,175 for fiscal year 2001.

As described in Note 3 to the accompanying general purpose financial statements, during fiscal year 2001, the City reclassified their nonexpendable trust fund to an expendable trust fund.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to obtain the sufficient evidential matter supporting the compensated absences liability of the General Long-Term Obligation Account Group, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Fostoria as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2002, 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.

Jim Petro
Auditor of State

September 10, 2002

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CITY OF FOSTORIA
SENECA COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash, cash equivalents and investments	$21,488	$1,528,193	$18,917	$636,480
Equity in pooled cash, cash equivalents and investments - nonexpendable trust fund				
Cash with fiscal agent		137,855	9,409	
Cash in segregated accounts				
Receivables (net of allowances for uncollectibles):				
Taxes	1,549,393	119,696		
Accounts	487			100,449
Loans		309,419		
Mortgage		680,000		
Special assessments			136,060	528,508
Advances to other funds	150,000			
Due from other funds	11,309	2,510		
Due from other governments	402,006	426,293		
Prepayments	17,270	7,318		
Materials and supplies inventory	30,614			
Unamortized bond issue costs				
Deferred charges				
Property, plant and equipment (net of accumulated depreciation where applicable)				
Other debits:				
Amount available in debt service fund				
Amount to be provided from special assessments				
Amount to be provided for retirement of general long-term obligations				
Total assets and other debits	**$2,182,567**	**$3,211,284**	**$164,386**	**$1,265,437**

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
$612,421	$1,997	$235,605			$3,055,101
		20,300			20,300
					147,264
		35,047			35,047
					1,669,089
648,076					749,012
					309,419
					680,000
					664,568
					150,000
					13,819
					828,299
6,031	103				30,722
33,074					63,688
67,684					67,684
147,228					147,228
23,150,963			$14,206,787		37,357,750
				$18,917	18,917
				444,034	444,034
				1,238,291	1,238,291
$24,665,477	**$2,100**	**$290,952**	**$14,206,787**	**$1,701,242**	**$47,690,232**

(Continued)

CITY OF FOSTORIA
SENECA COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2001
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	$648	$575		
Contracts payable	1,787	56,938		$331,047
Accrued wages and benefits	99,459	9,007		
Compensated absences payable	49,158	2,971		
Pension obligation payable	211,405	14,715		
Deferred revenue	1,247,066	476,342	$136,060	528,508
Due to other governments	84			
Advances from other funds				150,000
Matured bonds payable			9,409	
Claims and judgments payable				
Due to other funds				
Deposits held and due to others				
Capital lease obligations				
Refunding bonds payable				
Special assessment debt with government commitment				
OWDA loan payable				
OPWC loan payable				
General obligation notes payable				
Total liabilities	1,609,607	560,548	145,469	1,009,555
Equity and other credits:				
Investment in general fixed assets				
Contributed capital				
Retained earnings - unreserved				
Accumulated deficit				
Fund balances:				
Reserved for encumbrances	40,301	397,913		96,741
Reserved for principal endowment				
Reserved for materials and supplies inventory	30,614			
Reserved for loans		309,419		
Reserved for advances	150,000			
Reserved for budget stabilization	19,673			
Reserved for prepayments	17,270	7,318		
Reserved for mortgage receivable		680,000		
Reserved for debt service			18,917	
Reserved for termination benefits		119,050		
Unreserved-undesignated	315,102	1,137,036		159,141
Total equity and other credits	572,960	2,650,736	18,917	255,882
Total liabilities, equity and other credits	**$2,182,567**	**$3,211,284**	**$164,386**	**$1,265,437**

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
$5,070					$6,293
22,686	$11				412,469
46,408	1,091				155,965
298,021	3,349			$779,175	1,132,674
58,003	1,462				285,585
					2,387,976
		$16,034			16,118
					150,000
					9,409
	597,799				597,799
		13,819			13,819
		13,981			13,981
18,860				237,300	256,160
2,555,000					2,555,000
				444,034	444,034
5,317,116					5,317,116
51,700				240,733	292,433
64,211					64,211
8,437,075	603,712	43,834		1,701,242	14,111,042
			$14,206,787		14,206,787
5,169,691					5,169,691
11,058,711					11,058,711
	(601,612)				(601,612)
					534,955
		20,300			20,300
					30,614
					309,419
					150,000
					19,673
					24,588
					680,000
					18,917
					119,050
		226,818			1,838,097
16,228,402	(601,612)	247,118	14,206,787		33,579,190
$24,665,477	**$2,100**	**$290,952**	**$14,206,787**	**$1,701,242**	**$47,690,232**

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	Governmental Fund Types	
	General	**Special Revenue**
Revenues:		
Municipal income tax	$5,464,804	
Property and other taxes	889,637	$135,266
Charges for services	249,130	36,029
Licenses, permits and fees	35,344	
Fines and forfeitures	11,309	14,273
Special assessments		
Intergovernmental	782,112	653,388
Investment income	89,254	43,577
Other	328,796	71,959
Total revenue	7,850,386	954,492
Expenditures:		
Current Operations:		
General government	1,501,809	11,194
Security of persons and property	4,485,366	377,530
Public health and welfare	369,511	8,294
Transportation	51,166	654,835
Community environment	153,752	298,316
Leisure time activity	84,023	132,291
Other		
Capital outlay		
Debt service:		
Principal retirement	4,741	216,197
Interest and fiscal charges	691	23,980
Total expenditures	6,651,059	1,722,637
Excess of revenues over (under) expenditures	1,199,327	(768,145)
Other financing sources (uses):		
Proceeds of OPWC loans		
Operating transfers in	370,000	792,387
Operating transfers out	(2,047,601)	(149,000)
Total other financing sources (uses)	(1,677,601)	643,387
Excess of expenditures and other financing uses over revenues and other financing sources	(478,274)	(124,758)
Fund balances, January 1 (Restated)	1,020,620	2,838,293
Increase (decrease) in reserve for inventory	30,614	(62,799)
Fund balances, December 31	**$572,960**	**$2,650,736**

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

Governmental Fund Types		Fiduciary Fund Type	
Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
			$5,464,804
			1,024,903
			285,159
			35,344
			25,582
$29,161	$42,429		71,590
	132,052		1,567,552
			132,831
			400,755
29,161	174,481		9,008,520
			1,513,003
			4,862,896
			377,805
			706,001
			452,068
			216,314
	1,004,240	$243	1,004,483
21,000	29,140		271,078
9,499	20,617		54,787
30,499	1,053,997	243	9,458,435
(1,338)	(879,516)	(243)	(449,915)
	860,000		2,022,387
	(86,370)		(2,282,971)
	773,630		(260,584)
(1,338)	(105,886)	(243)	(710,499)
20,255	361,768	227,061	4,467,997
			(32,185)
$18,917	**$255,882**	**$226,818**	**$3,725,313**

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	General		
	Revised Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
Income taxes	$5,600,000	$5,496,130	($103,870)
Property and other taxes	665,000	886,232	221,232
Charges for services	245,800	260,210	14,410
Licenses, permits, and fees	43,270	35,344	(7,926)
Fines and forfeitures			
Intergovernmental	906,171	781,977	(124,194)
Special assessments			
Investment income	150,000	92,447	(57,553)
Other	488,451	326,424	(162,027)
Total revenues	8,098,692	7,878,764	(219,928)
Expenditures:			
Current:			
General government	1,431,208	1,406,277	24,931
Security of persons and property	4,541,600	4,463,153	78,447
Public health and welfare	382,181	370,791	11,390
Transportation	57,050	51,300	5,750
Community environment	175,054	166,533	8,521
Leisure time activity	88,067	88,018	49
Capital outlay			
Debt service:			
Principal retirement			
Interest and fiscal charges			
Total expenditures	6,675,160	6,546,072	129,088
Excess of revenues over (under) expenditures	1,423,532	1,332,692	(90,840)
Other financing sources (uses):			
Proceeds from sale of fixed assets	10,000	2,515	(7,485)
Advances in and not repaid			
Advances (out) and not repaid			
Advance of refunding of debt			
Payment to refunded bond escrow agent			
Inception or proceeds of capital lease			
Proceeds of notes			
Operating transfers in	355,000	370,000	15,000
Operating transfers (out)	(2,118,700)	(2,047,601)	71,099
Other financing sources			
Other financing uses			
Refund of prior year receipts	(110,000)	(112,310)	(2,310)
Total other financing sources (uses)	(1,863,700)	(1,787,396)	76,304
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(440,168)	(454,704)	(14,536)
Fund balances, January 1	390,295	390,295	
Prior year encumbrances appropriated	43,077	43,077	
Fund balances, December 31	**($6,796)**	**($21,332)**	**($14,536)**

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
116,000	135,194	19,194			
72,153	36,029	(36,124)			
13,348	12,022	(1,326)			
739,677	684,179	(55,498)			
			36,000	29,161	(6,839)
52,350	44,614	(7,736)			
314,220	305,560	(8,660)			
1,307,748	1,217,598	(90,150)	36,000	29,161	(6,839)
34,454	25,854	8,600			
347,284	382,395	(35,111)			
14,500	8,293	6,207			
825,676	743,283	82,393			
457,430	407,964	49,466			
626,809	483,571	143,238			
240,200	240,177	23			
			21,000	21,000	
			9,500	9,499	1
2,546,353	2,291,537	254,816	30,500	30,499	1
(1,238,605)	(1,073,939)	164,666	5,500	(1,338)	(6,838)
738,700	792,387	53,687			
(130,000)	(149,000)	(19,000)			
608,700	643,387	34,687			
(629,905)	(430,552)	199,353	5,500	(1,338)	(6,838)
1,410,565	1,410,565		20,255	20,255	
92,754	92,754				
$873,414	**$1,072,767**	**$199,353**	**$25,755**	**$18,917**	**($6,838)**

(Continued)

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)

	Capital Projects		
	Revised Budget	**Actual**	**Variance: Favorable (Unfavorable)**
Revenues:			
Income taxes			
Property and other taxes			
Charges for services			
Licenses, permits, and fees			
Fines and forfeitures			
Intergovernmental			
Special assessments	85,926	174,481	88,555
Investment income			
Other			
Total revenues	85,926	174,481	88,555
Expenditures:			
Current:			
General government			
Security of persons and property			
Public health and welfare			
Transportation			
Community environment			
Leisure time activity			
Capital outlay	1,190,112	1,158,841	31,271
Debt service:			
Principal retirement	38,226	33,448	4,778
Interest and fiscal charges	20,617	20,617	
Total expenditures	1,248,955	1,212,906	36,049
Excess of revenues over (under) expenditures	(1,163,029)	(1,038,425)	124,604
Other financing sources (uses):			
Proceeds from sale of fixed assets			
Advances in and not repaid			
Advances (out) and not repaid			
Advance of refunding of debt			
Payment to refunded bond escrow agent			
Inception or proceeds of capital lease			
Proceeds of notes			
Operating transfers in	860,000	860,000	
Operating transfers (out)	(60,000)	(74,687)	(14,687)
Other financing sources			
Other financing uses			
Refund of prior year receipts			
Total other financing sources (uses)	800,000	785,313	(14,687)
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(363,029)	(253,112)	109,917
Fund balances, January 1	445,314	445,314	
Prior year encumbrances appropriated	116,939	116,939	
Fund balances, December 31	**$199,224**	**$309,141**	**$109,917**

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

Total (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)
$5,600,000	$5,496,130	($103,870)
781,000	1,021,426	240,426
317,953	296,239	(21,714)
43,270	35,344	(7,926)
13,348	12,022	(1,326)
1,645,848	1,466,156	(179,692)
121,926	203,642	81,716
202,350	137,061	(65,289)
802,671	631,984	(170,687)
9,528,366	9,300,004	(228,362)
1,465,662	1,432,131	33,531
4,888,884	4,845,548	43,336
396,681	379,084	17,597
882,726	794,583	88,143
632,484	574,497	57,987
714,876	571,589	143,287
1,430,312	1,399,018	31,294
59,226	54,448	4,778
30,117	30,116	1
10,500,968	10,081,014	419,954
(972,602)	(781,010)	191,592
10,000	2,515	(7,485)
1,953,700	2,022,387	68,687
(2,308,700)	(2,271,288)	37,412
(110,000)	(112,310)	(2,310)
(455,000)	(358,696)	96,304
(1,427,602)	(1,139,706)	287,896
2,266,429	2,266,429	
252,770	252,770	
$1,091,597	**$1,379,493**	**$287,896**

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND EQUITY
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	Proprietary Fund Types		Fiduciary Fund Type	
	Enterprise	**Internal Service**	**Nonexpendable Trust**	**Total (Memorandum Only)**
Operating revenues:				
Charges for services	$3,670,741	$1,240,778	$9,004	$4,920,523
Other operating revenues	44,840	338,536		383,376
Total operating revenues	3,715,581	1,579,314	9,004	5,303,899
Operating expenses:				
Personal services	2,163,977	263,613		2,427,590
Contract services	166,030	28,174		194,204
Materials and supplies	305,125	72,553		377,678
Depreciation	615,404			615,404
Claims expense		1,720,286		1,720,286
Other operating expense	9,680	26,130	925	36,735
Total operating expenses	3,260,216	2,110,756	925	5,371,897
Operating income (loss)	455,365	(531,442)	8,079	(67,998)
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	(434,017)			(434,017)
Investment earnings		1,290		1,290
Total nonoperating revenues (expenses)	(434,017)	1,290		(432,727)
Net income (loss) before operating transfers	21,348	(530,152)	8,079	(500,725)
Operating transfers in	139,308	168,901	7,375	315,584
Operating transfers out	(55,000)			(55,000)
Net income (loss)	105,656	(361,251)	15,454	(240,141)
Addback of depreciation on assets acquired from contributed capital	148,912			148,912
Retained earnings/(Accumulated Deficit)/ Fund balance at January 1	10,804,142	(240,361)	4,846	10,568,627
Retained earnings/(Accumulated Deficit)/ Fund balance at December 31	11,058,710	(601,612)	20,300	10,477,398
Contributed capital at December 31	5,169,692			5,169,692
Total fund equity at December 31	**$16,228,402**	**($601,612)**	**$20,300**	**$15,647,090**

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

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	Proprietary Fund Types		Fiduciary Fund Type	
	Enterprise	Internal Service	Nonexpendable Trust	Total (Memorandum Only)
Cash flows from operating activities:				
Cash received from charges for services	$3,680,333	$1,240,778	$9,004	$4,930,115
Cash received from other operations	42,499	344,390		386,889
Cash payments for personal services	(2,090,832)	(261,935)		(2,352,767)
Cash payments for contract services	(147,136)	(28,164)		(175,300)
Cash payments for materials and supplies	(436,643)	(72,553)		(509,196)
Cash payments for claims		(1,423,679)		(1,423,679)
Cash payments for other expenses	(9,680)	(26,130)	(925)	(36,735)
Net cash provided by (used in) operating activities	1,038,541	(227,293)	8,079	819,327
Cash flows from noncapital financing activities:				
Transfers in from other funds	139,308	168,901	7,375	315,584
Transfers out to other funds	(55,000)			(55,000)
Net cash provided by noncapital financing activities	84,308	168,901	7,375	260,584
Cash flows from capital and related financing activities:				
Proceeds of notes	298,846			298,846
Principal payments-capital lease	(9,480)			(9,480)
Interest payments-capital lease	(1,382)			(1,382)
Principal retirement	(616,438)			(616,438)
Acquisition of capital assets	(603,744)			(603,744)
Interest paid	(385,921)			(385,921)
Net cash used in capital and related financing activities	(1,318,119)			(1,318,119)
Cash flows from investing activities:				
Interest received		1,290		1,290
Net cash provided by investing activities		1,290		1,290
Net increase (decrease) in cash and cash equivalents	(195,270)	(57,102)	15,454	(236,918)
Cash and cash equivalents at January 1	807,691	59,099	4,846	871,636
Cash and cash equivalents at December 31	**$612,421**	**$1,997**	**$20,300**	**$634,718**

(Continued)

CITY OF FOSTORIA
SENECA COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)

	Proprietary Fund Types		Fiduciary Fund Type	
	Enterprise	Internal Service	Nonexpendable Trust	Total (Memorandum Only)
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$455,366	($531,442)	$8,079	($67,997)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	615,403			615,403
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(5,095)			(5,095)
Decrease in accounts receivable	7,251			7,251
Increase in accounts payable	3,274	11		3,285
Decrease in contracts payable	(107,174)			(107,174)
Increase in claims payable		302,461		302,461
Decrease in accrued wages and benefits	(3,395)	(716)		(4,111)
Increase in compensated absences payable	53,431	2,053		55,484
Decrease in prepaids	(3,629)	(1)		(3,630)
Increase in pension obligation payable	23,109	341		23,450
Net cash provided (used) by operating activities	**$1,038,541**	**($227,293)**	**$8,079**	**$819,327**

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

NOTE 1 - THE REPORTING ENTITY

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

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

Based on the foregoing criteria, the financial activities of the following PCUs have been reflected in the accompanying financial statements as follows:

JOINTLY GOVERNED ORGANIZATIONS

Fostoria Economic Development Corporation (FEDC) - The City is a participant in FEDC, which is an association of businesses and government within the City. The organization was formed for the purpose of fostering economic growth, encouraging new industries, and developing employment opportunities in the City. The governing board of FEDC includes two representatives of the City; in addition, the City Auditor sits on the finance committee. Financial information can be obtained from Tony Allen, 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 building in the Industrial Park of the City.

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 Street, Fostoria, Ohio 44830.

During the year ended December 31, 2001, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation - Fund Accounting

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

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

GOVERNMENTAL FUND TYPES

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

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

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

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

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

PROPRIETARY FUND TYPES

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

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

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

FIDUCIARY FUND TYPES

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

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

ACCOUNT GROUPS

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

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

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

B. Measurement Focus and Basis of Accounting

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

All proprietary and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings or fund balance components.

Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental and expendable trust funds use the modified accrual basis of accounting. Proprietary and nonexpendable trust funds use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the reporting of expenses and expenditures.

Revenues - Exchange and Non-exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fines and forfeitures, fees and special assessments.

Deferred Revenue

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance year 2002 operations, have been recorded as deferred revenues. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Data

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

The legal level of budgetary control is at the object level within each department. Although statutes require that all funds be budgeted, it is not necessary to do so if City Council does not anticipate expenditure of the available funds.

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

TAX BUDGET:

A budget of estimated revenues and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

ESTIMATED RESOURCES:

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected revenue of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the following fiscal year as authority for expenditure. Budgeted receipts as shown in the accompanying financial statements do not include January 1, 2001 unencumbered fund balances. However, those fund balances are available for appropriations.

APPROPRIATIONS:

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

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

ENCUMBRANCES:

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

Note 19 provide a reconciliation of the budget-basis and GAAP-basis of accounting.

D. Cash and Investments

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

During fiscal year 2001, investments were limited to STAR Ohio, certificates of deposit, and a money market account.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does not operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for December 31, 2001.

Following Ohio statutes and other legal provisions, the City Council has specified the funds to receive an allocation of interest earnings. The General fund was credited with more interest revenue than would have been received based upon its share of the City's internal investment pool during 2001 as follows:

	Interest Actually Received	Interest Based upon Share of Cash Fund Balance	Interest Assigned from Other Funds
General Fund	$89,254	$ 9,100	$80,154
Special Revenue Funds			
CDBG/VOCA	4,177	1,224	177
Revolving Loan	39,400	36,891	2,509
Internal Service Funds			
Health Insurance	1,290	1,222	68

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments, to the extent a specific fund has purchased the investment.

The City utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance of this account at December 31, 2001 was $9,409. This depository account is presented on the combined balance sheet as "Cash with Fiscal Agent". The City has segregated bank accounts for Municipal Court monies and income tax paid by credit card held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "Cash in Segregated Accounts" since they are not required to be deposited into the City treasury.

E. Inventories of Materials and Supplies

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

F. Property, Plant, Equipment, and Depreciation

1. General Fixed Assets Account Group

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

2. Enterprise Funds

Property, plant, and equipment reflected in the enterprise funds are stated at cost (or estimated historical cost) and updated for the cost of additions and disposals during the year. Contributed fixed assets are recorded at their fair market value as of the date donated.

Depreciation and amortization have been provided on a straight-line basis over the following estimated useful lives:

Description	Estimated Life
Buildings	50
Machinery and equipment	5-20
Improvements Other Than Buildings	15-20
Utility in Service	80

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

G. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method, i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or older with at least twenty (20) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

H. Long-Term Obligations

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

I. Interfund Transactions

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

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

2. Non-recurring and non-routine permanent transfers of equity are reported as residual equity transfers.

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

4. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as “interfund loans receivable or payable”. The City had no short-term interfund loans receivable or payable at December 31, 2001.

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

An analysis of interfund transactions is presented in Note 5.

J. Fund Balance Reserves and Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds. Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports amounts representing material and supply inventories, budget stabilization, available debt service equity, termination benefits, prepaid items, encumbrances outstanding, mortgage receivable, nonexpendable trust corpus, long-term interfund obligations and loans receivable as reservations of fund balance in the governmental funds.

K. Bond Discounts, Premiums and Issuance Costs

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

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

L. Prepaids

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At period end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

M. Estimates

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

N. Financial Reporting for Proprietary and Similar Fund Types

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

O. Total Columns on General-Purpose Financial Statements

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, <u>Accounting and Financial Reporting for Nonexchange Transactions</u> and GASB Statement No. 36 <u>Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33</u> were implemented during fiscal 2001. These statements pertain to the financial reporting of certain types of revenue received by the City for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions and voluntary nonexchange transactions. The implementation of GASB 33 was not material to the financial statements. The adoption of these statements had the following effect on fund balances as previously reported by the City at December 31, 2000:

	General	Special Revenue
Fund balances as previously reported	$ 946,200	$2,802,295
GASB No. 33 and No. 36 implementation	74,420	35,998
Restated fund balances as of January 1, 2001	$1,020,620	$2,838,293

B. Prior Period Adjustment

1. The City has presented a restatement of the General Long-Term Obligations Account Group to properly reflect the outstanding balances of OPWC loans payable at January 1, 2001. The effect of the restatement is as follows:

	Balances as Previously Reported December 31, 2000	Adjustment	Restated Balances January 1, 2001
General Long-term Obligations Account Group:			
OPWC Loans payable	$165,181	$93,423	$258,604

2. The City has presented a restatement of fund balance for the Trust Funds to properly reflect the Cemetery Fund as Expendable Trust. The effect of the restatement is as follows:

	Balances as Previously Reported December 31, 2000	Adjustment	Restated Balances January 1, 2001
Nonexpendable Trust Funds	$218,153	$(213,307)	$4,846
Expendable Trust Funds	13,754	213,307	227,061

The effect of this change on the excess of revenues over/under expenditures as previously reported for the Non-Expendable and Expendable Trust Funds Type GAAP schedule for the year ended December 31, 2000 is as follows:

	Excess Reported December 31, 2000	Restatement	Restated Excess January 1, 2001
Expendable Trust Funds	$(243)	$15,454	$15,211
Nonexpendable Trust Fund	15,454	(15,454)	0

C. Agency Funds

The following are material receivables for Agency funds, which, in other fund types, would be recognized on the combined balance sheet:

Accounts Receivable	$5,435

D. Deficit Retained Earnings/Fund Balances

Retained earnings/fund balances at December 31, 2001 included the following individual fund deficits:

	Deficit Fund Balance/ Retained Earnings
Special Revenue Funds	
Issue II - Circle Park	$(56,344)
Capital Projects Funds	
Capital Improvement	(25,601)
Enterprise Funds	
EMS	(92,173)
Internal Service Funds	
Service Garage	(5,810)
Health Insurance EHBC	(595,802)

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

E. Budgetary Noncompliance

1. The Health Insurance fund had as of December 31, 2001 expenditures plus encumbrances in excess of appropriations in the amount of $284,982, contrary to Section 5705.41(B), Ohio Revised Code. In addition, eight other funds also had such variances in smaller relative amounts.

   The City also had expenditures that were certified after the expenditure was incurred, which is a violation of State law.

2. The following funds had appropriations in excess of estimated revenues plus available balances for the fiscal year ended December 31, 2001:

Fund Type/Fund	Excess
General Fund	$408,229
Special Revenue Funds:	
Street Construction, Maintenance and Repair	73,722
Issue II - Circle Park	425,591

   In addition, five other funds also had such variances in smaller relative amounts.

   The City had appropriations in excess of estimated revenues plus available balances at June 30, 2001 for the General fund in the amount of $183,280, the Water fund in the amount of $327,991 and three additional funds in smaller relative amounts.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

LEGAL REQUIREMENTS

Moneys held by the City are classified by State statute into two categories. Active moneys are public moneys determined to be necessary to meet current demand upon the City treasury. Active moneys 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.

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 City Auditor 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.

Moneys held by the City which are not considered active are classified as inactive. Inactive moneys may be deposited or invested in the following securities:

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

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

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

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

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

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

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

1. Bonds of the State of Ohio;

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

3. Obligations of the City.

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

Cash in Segregated Accounts: At year-end, $35,047 was on deposit in segregated accounts for the Municipal Court, and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as “Equity in Pooled Cash and Cash Equivalents”.

Cash with Fiscal Agent: At year-end, $9,409 was on deposit with the City’s fiscal agent for matured principal and interest on bonded debt and $137,855 was on deposit with City’s fiscal agent for undistributed permissive tax received. This amount is included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the combined balance sheet as “Equity in Pooled Cash and Cash Equivalents”

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

Deposits: At year-end, the carrying amount of the City's deposits was $778,519 and the bank balance was $806,264. Both amounts include payroll clearance accounts, cash in segregated accounts, and amounts held by fiscal agents. Of the bank balance:

1. $287,726 was covered by federal depository insurance; and
2. 2.$518,538 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category 2	Fair Value
Money Market	$385,107	$ 385,107
Amounts Not Subject to Categorization:		
Investment in State Treasurer’s Investment Pool		2,094,086
Total Investments	$385,107	$2,479,193

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

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

	Equity in Pooled Cash and Cash Equivalents	Investments
Per GASB Statement No. 9	$ 3,075,401	
Combined Balance Sheet Reclassifications:		
Money Market	(385,107)	$ 385,107
State Treasurer's Investment Pool	(2,094,086)	2,094,086
Cash in segregated accounts	35,047	
Cash with fiscal agent	147,264	0
Per GASB Statement No. 3	$ 778,519	$2,479,193

NOTE 5 - INTERFUND TRANSACTIONS

A. The following is a summarized reconciliation of the City's operating transfers for 2001:

Fund	Transfers In	Transfers (Out)
General Fund	$ 370,000	$(2,047,601)
Special Revenue Funds		
Street Construction and Maintenance	107,500	
State Highway		(4,000)
COPS More Grant	71,082	
Parks and Recreation	140,000	
Termination Benefits Reserve	50,000	(145,000)
Fire Department Asset Replacement	240,200	
Airport Grant	3,605	
Beautification	60,000	
City Clean-up	20,000	
Community Development	100,000	0
Total Special Revenue Funds	792,387	(149,000)
Capital Projects Funds		
General Capital Improvement	260,000	(71,082)
Street Maintenance Capital	200,000	
Infrastructure Capital Improvement	200,000	(10,980)
Sewer and Water Extension	200,000	(4,308)
Total Capital Projects Funds	860,000	(86,370)

Enterprise Funds		
Sewer	4,308	(55,000)
Sewer Plant Replacement	55,000	
EMS	80,000	
Total Enterprise Funds	139,308	(55,000)
Internal Service Funds		
Health Insurance	168,901	
Nonexpendable Trust Funds		
Cemetery Trust	7,375	0
Total Operating Transfers	$2,337,971	$(2,337,971)

B. Interfund balances at December 31, 2001 which relate to quasi-external transactions, consist of the following individual fund receivables and payables:

	Due from Other Funds	Due to Other Funds
General Fund	$11,309	
Special Revenue Funds		
DUI IDATF	224	
Court Special Projects	2,266	
Drug Law Enforcement	20	
Total Special Revenue Funds	2,510	
Agency Fund		
Municipal Court		$13,819
Total Quasi-External Transactions	$13,819	$13,819

C. Interfund balances at December 31, 2001 consist of the following individual fund loans which are long-term in nature (outstanding longer than one year):

	Advances to Other Funds	Advances from Other Funds
General Fund	$150,000	
Capital Projects Funds		
Capital Improvement		$(150,000)
Total Long-Term Advances	$150,000	$(150,000)

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value as of the prior January 1, the tax lien date. Assessed values are established by state law at 35 percent of appraised market value, as established by the County Auditor. All real property is required to be revalued every six years. The last revaluation was completed in 1994. Real property taxes are payable annually or semiannually. The first payment for 2001 was due January 1, with the remainder payable June 30.

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

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied on the assessed values and at the close of the most recent fiscal year of the taxpayer (for businesses in operation more than one year) or December 31. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually.

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

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

The full tax rates applied to real property and tangible personal property for the fiscal year ended December 31, 2001 were as follows:

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

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

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

The assessed values upon which the 2001 taxes were collected are as follows:

	Seneca County	Wood County	Hancock County
Real Property - 2000 Valuation			
Residential/Agricultural	$ 54,170,340	$ 7,449,680	$24,238,320
Commercial/Industrial	31,220,690	6,287,000	9,127,460
Public Utilities	150,730		18,370
Totals	85,541,760	13,736,680	33,384,150

<u>Tangible Personal Property - 2000 Valuation</u>

General44,582,987	4,421,859	7,648,895	
Public Utilities	6,423,820	762,660	2,095,940
Totals	51,006,807	5,184,519	9,744,835
Total Valuation	$136,548,567	$18,921,199	$43,128,985

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

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 2 percent is applied to gross salaries, wages and other personal service compensation earned by residents both in and out of the City, and to earnings of nonresidents (except certain transients) earned in the City. It also applies to net income of for-profit organizations conducting business within the City. Income tax revenue is reported to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2001 was $5,464,804.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2001 consisted primarily of taxes, accounts (billings for user charged services), intergovernmental receivables, entitlement or shared revenues and interest on investments.

A summary of principal receivables follows:

<u>General Fund</u>:	
City Income Taxes:	
Current	$ 588,859
Delinquent	183,803
Property Taxes and Assessments:	
Current	753,405
Delinquent	23,326
Total Taxes and Assessments	1,549,393
Due from Other Governments	402,006
Total General Fund	$1,951,399
<u>Special Revenue Funds</u>:	
Property Taxes and Assessments:	
Current	$ 116,072
Delinquent	3,624
Total Taxes and Assessments	119,696
Due from Other Governments	426,293
Total Special Revenue Funds	$ 545,989

Debt Service Fund:	
Special Assessments:	
Current	$ 136,060
Total Debt Service Fund	$ 136,060
Capital Projects Fund:	
Special Assessments:	
Current	$ 528,508
Accounts	100,449
Total Capital Projects Fund	$ 628,957
Enterprise Fund:	
Accounts:	
Billed - Unpaid	$ 358,449
Unbilled	289,627
Total Enterprise Fund	$ 648,076

The above receivable amounts are net of the applicable allowance for uncollectibles which are not material in relation to the respective receivable balances. City income taxes are accrued at December 31, 2001, to the extent that individual estimated payments and employee withholdings for the last quarter of 2001 (which are due by January 31, 2002) are collected within sixty days after year-end. Residents are billed on a quarterly basis for water and sewer service based upon the actual cycle billings, pro-rated by the various reading dates at the end of the year.

NOTE 9 - LOANS RECEIVABLE

The Fostoria City Council created the Revolving Loan Committee and granted them the authority to act on behalf of the City in making loans from the City's Revolving Loan Fund to qualified applicants within the revolving loan fund geographic area. At the close of 2001, there were loans outstanding to four businesses with a total principal balance due of $309,419.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

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

	Balance 01/01/01	Additions	(Deletions)	Balance 12/31/01
Land	$ 1,943,936		$ (9,000)	$ 1,934,936
Land Improvements	510,049			510,049
Buildings	6,878,807	$ 74,030		6,952,837
Machinery and Equipment	2,074,435	360,997	(24,019)	2,411,413
Vehicles	2,149,746	247,806		2,397,552
Total General Fixed Assets	$13,556,973	$682,833	$(33,019)	$14,206,787

A summary of proprietary fund property, plant and equipment at December 31, 2001, by class and by individual fund is as follows:

	Water	Sanitary Sewer
Land	$ 3,132,990	$ 256,510
Buildings	5,057,773	7,302,119
Buildings - Contributed Capital	48,904	26,918
Improvements		571
Improvements - Contributed Capital	3,089	
Machinery, Equipment and Furniture	1,086,165	539,556
Machinery, Equipment and Furniture Contributed Capital	609,552	131,378
Vehicles	75,021	167,768
Vehicles - Contributed Capital	103,083	109,165
Infrastructure	5,942,205	2,222,942
Infrastructure - Contributed Capital	1,972,650	3,481,796
Subtotal	18,031,432	14,238,723
Less Accumulated Depreciation	(5,682,490)	(3,436,702)
Net Property, Plant and Equipment	$12,348,942	$10,802,021

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

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

Principal payments in 2001 totaled $4,741 in the general fund, $216,197 in the special revenue funds and $9,480 in the enterprise funds. Capital lease payments in governmental funds have been reclassified on the financial statements to reflect debt principal and interest retired. In the enterprise funds, principal payments have been reclassified to reduce the capital lease liability, and interest payments have been reclassified as interest and fiscal charges expense.

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

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 2001:

Year Ending December 31	General Long-Term Obligations	Enterprise
2002	$245,604	$10,869
2003	4,521	9,057
Total future minimum lease payments	250,125	19,926
Less: amount representing interest	(12,825)	(1,066)
Present value of future minimum lease payment	$237,300	$18,860

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

NOTE 12 - ACCUMULATED UNPAID EMPLOYEE BENEFITS

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

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

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

A liability for accrued vacation for $481,493 has been recognized. Vacation is accumulated based upon length of service as follows:

Uniform Service	Employee Hours Earned / Bi-weekly	Non-Uniform Service	Time Off - (Hours)
After 1 year	80 Hours	After 1 year	40 Hours
After 8 years	120 Hours	After 2 years	80 Hours
After12 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 years176 Hours	
		After 18 years200 Hours	
		After 20 years216 Hours	
		After 25 years240 Hours	

The accrued vacation and sick leave benefits recorded in the General Long-Term Obligations Account Group represent the non-current portion of the liability. The current portion has been recorded in the appropriate fund type.

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

A. The following is a summary of the changes in the City's long-term obligations during 2001:

	Issue Date	Interest Rate	(Restated) Balance 1/1/01	Additions	Reductions	Outstanding 12/31/01
General Long-Term Obligations:						
Ohio Public Works Commission:						
OPWC-Kelly Storm Sewer	5/8/98	N/A	$ 165,181	$	$ (13,200)	$ 151,981
OPWC-CSO#5 (Restated)	12/20/00	N/A	93,423		(4,671)	88,752
						101,188
Total OPWC Loans			258,604		(17,871)	240,733
Special Assessment Bonds:						
Main Street Improvement	6/1/83	11.625%	10,000		(7,000)	3,000
Plaza Drive	5/1/88	7.125%	117,000		(14,000)	103,000
Kelly Addition	7/23/98	5.95%	349,303		(11,269)	338,034
Total Special Assessment Bonds			476,303		(32,269)	444,034
Other Long-Term Obligations:						
Compensated Absences Payable			519,733	259,442		779,175
Capital Leases Payable			458,238		(220,938)	237,300
Total Other Long-Term Obligations			977,971	259,442	(220,938)	1,016,475
Total General Long-Term Obligations			1,712,878	259,442	(271,078)	1,701,242
Enterprise Fund Obligations:						
General Obligation Bonds:						
Reservoir Refunding Bonds	12/1/89	3.80-4.90%	2,140,000		(175,000)	1,965,000
Sewer Refunding Bonds	4/21/95	2.70-4.50%	725,000		(135,000)	590,000
Total General Obligation Bonds			2,865,000		(310,000)	2,555,000
OWDA Loans payable:						
OWDA Loan	10/15/00	4.66%	843,118	234,635	(34,413)	1,043,340
OWDA Loan	7/1/95	4.56%	4,397,688		(219,783)	4,177,905
OWDA Loan	1/1/99	0-5%	143,805		(47,934)	95,871
Total OWDA Loans			5,384,611	234,635	(302,130)	5,317,116
OPWC Loan:						
CSO #1, Wood County		N/A	56,008		(4,308)	51,700
EMS Ambulance Loan						
4.95% Ambulance	7/17/01	4.95%		64,211		64,211

Other Long-Term Obligations:				
Compensated Absences	244,590	53,431		298,021
Capital Leases Payable	28,340		(9,480)	18,860
Total Other Long-Term Obligations	272,930	53,431	(9,480)	316,881
Total Enterprise Fund Obligations	8,578,549	352,277	(625,918)	8,304,908
Total Long-Term Obligations	$10,291,427	$611,719	$(896,996)	$10,006,150

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

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

On April 20, 1995, the City defeased 1993 Sewage System Refunding and Improvement Bonds in the amount of $6,160,000 with interest rates from 3.0% to 4.6%. The bonds are in an irrevocable trust with an escrow agent to provide for all future debt service payments, and considered defeased. The amount outstanding at December 31, 2001 is $5,975,000.

On December 31, 1997, the City defeased 1989 Reservoir #6 Refinanced Bonds in the amount of $2,360,000 with interest rates from 6.45% to 7.05%. The proceeds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments. The amount outstanding at December 31, 2001 is $1,810,000.

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

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 employee's salaries are paid.

The Ohio Pubic 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 City was not incompliance with these requirements for two of its OPWC loan agreements.

C. A summary of the City's future debt service requirements as of December 31, 2001 follows:

Future Payment Due In	OWDA Loans (1)			OPWC Loans (1)
	Principal	Interest	Total	Principal Only
2002	$ 277,855	$ 191,756	$ 469,611	$ 26,848
2003	288,459	179,714	468,173	26,849
2004	251,616	166,224	417,840	26,848

2005	263,221	154,619	417,840	24,317
2006	275,360	142,480	417,840	21,787
2007-2011	1,579,423	509,780	2,089,703	104,270
2012-2016	1,337,842	124,601	1,462,443	49,307
2017-2018				12,207
Total	$4,273,776	$1,469,174	$5,742,950	$292,433

(1) The Circle Drive and E. Fremont Pump Station OPWC loans and the Water Plant upgrade OWDA loan are not included in the above schedules, because the City had not received the entire proceeds for the respective projects as of December 31, 2001.

Future Payment	Special Assessment Bonds			General Obligation Bonds		
Due In	Principal	Interest	Total	Principal	Interest	Total
2002	$ 28,950	$ 27,625	$ 56,575	$ 325,000	$116,618	$ 441,618
2003	26,671	25,556	52,227	340,000	102,642	442,642
2004	28,384	23,846	52,230	345,000	87,683	432,683
2005	29,245	21,917	51,162	365,000	72,257	437,257
2006	30,105	18,987	49,092	215,000	55,678	270,678
2007-2011	120,309	72,330	192,639	965,000	119,680	1,084,680
2012-2016	121,071	38,361	159,432			
2017-2020	59,299	4,472	63,771			
Total	$444,034	$233,094	$677,128	$2,555,000	$554,558	$3,109,558

Future Payment	Ambulance Loan		
Due In	Principal	Interest	Total
2002	$20,460	$3,178	$23,588
2003	21,420	2,168	23,588
2004	22,381	1,207	23,588
Total	$64,211	$6,553	$70,764

D. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2001, the City's total voted debt margin was $20,871,786, and the unvoted debt margin was $10,922,931; both amounts include available funds of $18,917.

NOTE 14 - SEGMENT INFORMATION FOR PROPRIETARY FUNDS

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

Segment information as of and for the year ended December 31, 2001, is as follows:

	Water	Sewer	Sewer Plant Replacement	EMS	Total
Operating Revenues	$ 1,796,206	$ 1,863,577		$ 55,798	$ 3,715,581
Operating Expenses					
Before Depreciation	1,286,487	1,080,064	$ 50,290	227,971	2,644,812
Depreciation Expense	365,381	250,023			615,404
Operating Loss	144,338	533,490	(50,290)	(172,173)	455,365
Operating Transfers:					
In		4,308	55,000	80,000	139,308
(Out)		(55,000)			(55,000)
Net Income (Loss)	(48,062)	241,181	4,710	(92,173)	105,656
Contributed Capital	1,909,184	3,260,508			5,169,692
Total Assets	13,058,518	11,304,830	322,607	(20,478)	24,665,477
Bonds and other Long-Term					
Liabilities	3,017,769	4,923,907		64,211	8,005,887
Net Working Capital	490,140	298,541	322,607	(27,962)	1,083,326
Total Equity	9,821,313	6,176,655	322,607	(92,173)	16,228,402
Encumbrances Outstanding	51,382	48,360	5,724	21,628	127,094

NOTE 15 - RISK MANAGEMENT

The City maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

During 1984, the City decided not to purchase commercial insurance for hospitalization, dental, vision, prescription, and medical benefits for losses suffered by its employees. Instead, City management believes it is more economical to manage its benefits internally and set aside assets for claim settlement in its internal service fund, the Health Insurance Fund. This fund services all claims for risk of loss to which the employees are exposed.

Under this program, the Fund provides coverage for up to a maximum of $35,000 for each claim. The City has purchased commercial insurance for claims in excess of these amounts.

The claims liability of $597,799 reported in the Fund at December 31, 2001 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims to be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. In the past, the City has purchased contracts from commercial insurers to satisfy liabilities and was on the cash basis of accounting; accordingly, no liability was reported for those claims.

Changes in the Fund's claims liability amount during 2001 and the past four fiscal years are as follows:

	Beginning of Year Liability	Current Year Claims	Claim Payments	Balance at Year End
2001	$301,192	$1,720,286	$1,423,679	$597,799
2000	84,119	1,000,526	783,453	301,192
1999	92,227	968,842	976,950	84,119
1998	55,745	872,386	835,904	92,227
1997	59,520	563,607	567,382	55,745

NOTE 16 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system created by the State of Ohio. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The PERS issues a stand-alone financial report which may be obtained by writing to the 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 2001 was 8.5% for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. The employer contribution rate for employees other than law enforcement was 13.55% of covered payroll; 9.25% was the portion used to fund pension obligations for 2001. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll; 12.40% was the portion used to fund pension obligations for 2001. The City's contributions for pension obligations to PERS for the years ended December 31, 2001, 2000, and 1999 were $424,382, $440,248, and $401,530, respectively; 73 percent has been contributed for 2001 and 100 percent for 2000 and 1999. $110,640, representing the unpaid contribution for 2000, 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 percent of their annual covered salary, while the City is required to contribute 19.5 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions for pension obligations to OP&F for the years ended December 31, 2001, 2000 and 1999 were $557,078, $512,314, and $421,955, respectively. 72 percent has been contributed for 2001, and 100% has been contributed for both 2000 and 1999. The unpaid contribution for 2001 of $403,438 is recorded as a liability within the respective funds.

NOTE 17 - POST EMPLOYMENT BENEFITS

A. Public Employees Retirement System

The PERS provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. Health care funding is on a pay-as-you-go basis. The Ohio Revised Code provides statutory authority for employer contributions. The PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2001 employer contribution rate for local government employers was 13.55% of covered payroll; 4.30% was the portion that was used to fund health care for the year. The law enforcement employer rate for 2001 was 16.70% of covered payroll; 4.30% was the portion used to fund health care for the year.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The City's contribution actually made to fund post employment benefits was $134,656.

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

As of December 31, 2000 (the latest information available), the unaudited estimated net assets available for future OPEB payments were $11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $14,364.6 million and $2,628.7 million, respectively, at December 31, 2000. The number of benefit recipients eligible for OPEB at December 31, 2000 was $411,076.

B. Ohio Police and Fire Pension Fund

The OP&F provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit

(OPEB) as described in GASB Statement No. 12, Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.0% and 7.25% of covered payroll in 2000 and 2001, respectively. The allocation is 7.75% in 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2000 (the latest information available), is 12,853 for police officers and 10,037 for firefighters. The amount of employer contributions in 2001 that were used to pay postemployment benefits was $198,046. OP&F's total health care expenses for the year ending December 31, 2000 was $106,160,054, which was net of member contributions of $5,657,431.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

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

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget Basis	$(454,704)	$(430,552)	$(1,338)	$(253,112)
Adjustments:				
Net Adjustment for Revenue Accruals	(28,378)	(263,106)		
Net Adjustment for Expenditure Accruals	(147,807)	113,474		(168,430)
Net adjustment for Other Financing Sources/ (Uses) Accruals	109,795			(11,683)
Encumbrances	42,820	455,426		327,339
GAAP Basis	$(478,274)	$(124,758)	$(1,338)	$(105,886)

NOTE 19 - CONTINGENT LIABILITIES

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 agreement 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, 2001.

B. Litigation

Several claims and lawsuits are pending against the City. In the opinion of the City Law Director, any potential liability would not have a material effect on the general purpose financial statements.

NOTE 20 - CONDUIT DEBT

The City has issued conduit debt on behalf of the Fostoria Community Hospital for the purpose of acquiring property and equipment and for capital improvements. Fostoria Community Hospital will repay the debt through lease payments on the property financed. Upon repayment of the debt, the ownership of the acquired property transfers to Fostoria Community Hospital. The aggregate amount of the debt outstanding as of December 31, 2001, is $2,844,696. 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.

NOTE 21 - REVOLVING LOAN PROGRAM

The City established the Revolving Loan program to provide loans to small local businesses. The City entered into agreement with the Fostoria Economic Development Corporation Fund (RLF) to administer the Revolving Loan funds.

As of December 31, 2001 the Revolving Loan program has loans receivables in the amount of $309,419 and one mortgage receivable in the amount of $680,000. Repayment of loans has been received timely except for the mortgage loan. The mortgage loan was made to the Fostoria Economic Development Corporation and is in arrears since July 2001. This loan was assumed by the TW2, LLC, during fiscal year 2002.

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

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

To the City Council:

We have audited the financial statements of the City of Fostoria as of and for the year ended December 31, 2001, and have issued our report thereon dated September 10, 2002 which was qualified for our inability to obtain sufficient evidential matter supporting the Compensated Absences of the General Long-Term Obligation account group. As described in Note 3 to the accompanying general purpose financial statements, during fiscal year 2001, the City reclassified their nonexpendable trust fund to an expendable trust fund. Except as discussed in the first sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-20574-001 thru 2001-20574-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 10, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Fostoria's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2001-20574-005.

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 believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City of Fostoria in a separate letter dated September 10, 2002.

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

Jim Petro
Auditor of State

September 10, 2002.

CITY OF FOSTORIA
SENECA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001

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

FINDING NUMBER 2001-20574-001

Noncompliance Citation

Ohio Revised Code § 5705.39 states that total appropriations from each fund should not exceed the total estimated revenue. The following funds had total appropriations exceeding estimated revenue as of June 30, 2001:

Fund Name	Estimated Revenue	Appropriations	Variance
General	$8,605,642	$8,788,922	$(183,280)
Special Revenue Fund			
Street Construction, Maintenance and Repair	641,185	713,363	(72,178)
Enterprise Funds			
Water	1,733,726	2,061,717	(327,991)
Sewer	2,250,310	2,329,968	(79,658)
Internal Service Fund			
Service Areas	125,000	138,568	(13,568)

The following funds had total appropriations exceeding estimated revenue as of December 31, 2001. Five other funds also had such variances in smaller relative amounts.

Fund Type	Estimated Revenue	Appropriations	Variance
General	$8,452,554	$8,860,783	$(408,229)
Special Revenue Funds			
Street Construction, Maintenance and Repair	641,185	714,907	(73,722)
Issue II – Circle Park	0	425,591	(425,591)

We recommend appropriations be amended on a timely basis to ensure they do not exceed estimated revenue.

FINDING NUMBER 2001-20574-002

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states no subdivision is to expend money unless it has been appropriated. During fiscal year 2001, the Health Insurance Fund had expenditures ($1,684,982) that exceeded appropriations ($1,400,000) in the amount of $284,982. Eight other funds also had such variances in smaller relative amounts.

FINDING NUMBER 2001-20574-003

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated. Also, no orders or contracts involving the expenditure of money is to be made unless there is attached thereto a certificate of the fiscal officer certifying that 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.

This section also provides two "exceptions" to the above requirement:

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

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

Twenty-five percent of transactions tested were not certified by the fiscal officer at the time the commitment was incurred and neither of the exceptions provided for were used. To improve controls over disbursements we recommend the City's disbursements receive certification of the fiscal officer that the funds are or will be available.

FINDING NUMBER 2001-20574-004

Noncompliance Citation

Article 5.3, and 5.4 Appendix C-1of the Ohio Pubic Works Commission loan agreement, requires the City to insure the project against loss or damage of the kinds usually insured by political subdivisions similarly situated by means of policies issued by reputable insurance companies duly qualified to do such business in the State of Ohio.

Any insurance policy issued shall be so written or endorsed as to make losses, if any, payable to the OPWC. Also each insurance policy shall contain a provision to the effect that the insurance company shall not cancel the same without first giving written notice thereof to the OPWC and the recipients at least ten days in advance of such cancellation.

The City of Fostoria entered into two loan/grant agreements with the Ohio Public Works Commission and the insurance policy did not include these provisions.

FINDING NUMBER 2001-20574-005

Material Weakness - Compensated Absences

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

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

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

CITY OF FOSTORIA
SENECA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No longer Valid
2000-20574-001	Finding for Recovery	Yes	Finding was repaid by the time the audit report was released.
2000-20574-002	ORC § 5705.41(D), Funds were not certified before expenditures were made.	No	Partially corrected. Repeated.
2000-20574-003	Compensated Absences balances were incorrect	No	No evidence of corrective action taken.
2000-20574-004	Segregation of duties for payroll department	Yes	Cross training has been implemented.

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CITY OF FOSTORIA

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 3, 2002