



**Auditor of State
Betty Montgomery**

**CITY OF FREMONT
SANDUSKY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Fremont
Sandusky County
323 South Front Street
Fremont, Ohio 43420-3067

To the Council:

We have audited the accompanying general-purpose financial statements of the City of Fremont, Sandusky County, (the City) as of and for the year ended December 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

We were unable to obtain sufficient evidential matter supporting the amounts reported as income tax revenue and the related receivables.

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 sufficient evidential matter supporting the amounts reported as income tax revenue and the related receivables, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Fremont, Sandusky County, as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 9, 2003

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**CITY OF FREMONT
SANDUSKY COUNTY**

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

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$ 3,091,204	\$ 5,501,371	\$ 81,150	\$ 2,604,030
Cash with fiscal agent	-	-	-	-
Cash in segregated accounts	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Taxes	707,100	2,188,430	-	-
Accounts	39,948	11,885	-	-
Accrued interest	393	-	-	-
Due from other governments	522,446	427,258	-	-
Materials and supplies inventory	-	36,384	-	-
Loans receivable	-	437,844	-	-
Deferred bond costs	-	-	-	-
Restricted assets:				
Equity in pooled cash and cash equivalents	-	-	-	-
Cash with fiscal agent	-	-	-	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	-
Other Debits:				
Amount available in debt service fund	-	-	-	-
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	<u>\$ 4,361,091</u>	<u>\$ 8,603,172</u>	<u>\$ 81,150</u>	<u>\$ 2,604,030</u>

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 3,824,963	\$ 17,335	\$ 341,774	\$ -	\$ -	\$ 15,461,827
337,113	-	569,190	-	-	906,303
-	-	9,908	-	-	9,908
-	-	-	-	-	2,895,530
756,299	-	3,668	-	-	811,800
-	-	1,199	-	-	1,592
-	-	-	-	-	949,704
266,495	-	-	-	-	302,879
-	-	-	-	-	437,844
295,089	-	-	-	-	295,089
52,981	-	-	-	-	52,981
219,769	-	-	-	-	219,769
28,348,796	-	-	12,518,803	-	40,867,599
-	-	-	-	81,150	81,150
-	-	-	-	5,702,234	5,702,234
\$ 34,101,505	\$ 17,335	\$ 925,739	\$ 12,518,803	\$ 5,783,384	\$ 68,996,209

(Continued)

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, FUND EQUITY, AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$ 20,120	\$ 23,421	\$ -	\$ 14,442
Contracts payable	-	-	-	64,785
Accrued wages and benefits	270,277	53,927	-	-
Compensated absences payable	-	-	-	-
Pension obligation payable	233,817	28,903	-	-
Police and fire accrued pension	-	-	-	-
Deferred revenue	1,039,870	990,331	-	-
Due to other governments	-	-	-	-
Deposits held and due to others	-	-	-	-
Claims and judgments payable	-	-	-	-
Accrued interest payable	-	-	-	-
OPWC loans payable	-	-	-	-
General obligation bonds payable	-	-	-	-
Revenue bonds payable	-	-	-	-
Payable from restricted assets:				
Refundable deposits	-	-	-	-
	1,564,084	1,096,582	-	79,227
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings:				
Reserved for bond covenants	-	-	-	-
Unreserved	-	-	-	-
Fund Balances:				
Reserved for encumbrances	37,027	173,444	-	458,216
Reserved for materials and supplies inventory	-	36,384	-	-
Reserved for revolving loans receivable	-	437,844	-	-
Reserved for debt service	-	-	81,150	-
Designated for workers' compensation	343,832	-	-	-
Unreserved/Undesignated	2,416,148	6,858,918	-	2,066,587
	2,797,007	7,506,590	81,150	2,524,803
Total liabilities, equity and other credits	\$ 4,361,091	\$ 8,603,172	\$ 81,150	\$ 2,604,030

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

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$ 95,191	\$ 475	\$ -	\$ -	\$ -	\$ 153,649
-	-	-	-	-	64,785
146,126	2,703	-	-	-	473,033
343,800	-	-	-	635,895	979,695
86,546	1,604	-	-	-	350,870
-	-	-	-	857,489	857,489
-	-	-	-	-	2,030,201
-	-	61,934	-	-	61,934
-	-	13,576	-	-	13,576
-	-	3,662	-	-	3,662
42,173	-	-	-	-	42,173
196,317	-	-	-	-	196,317
7,170,000	-	-	-	4,290,000	11,460,000
2,375,000	-	-	-	-	2,375,000
52,981	-	-	-	-	52,981
<u>10,508,134</u>	<u>4,782</u>	<u>79,172</u>	<u>-</u>	<u>5,783,384</u>	<u>19,115,365</u>
-	-	-	12,518,803	-	12,518,803
5,057,257	-	-	-	-	5,057,257
272,750	-	-	-	-	272,750
18,263,364	12,553	-	-	-	18,275,917
-	-	-	-	-	668,687
-	-	-	-	-	36,384
-	-	-	-	-	437,844
-	-	-	-	-	81,150
-	-	-	-	-	343,832
-	-	846,567	-	-	12,188,220
<u>23,593,371</u>	<u>12,553</u>	<u>846,567</u>	<u>12,518,803</u>	<u>-</u>	<u>49,880,844</u>
<u>\$ 34,101,505</u>	<u>\$ 17,335</u>	<u>\$ 925,739</u>	<u>\$ 12,518,803</u>	<u>\$ 5,783,384</u>	<u>\$ 68,996,209</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Municipal income tax	\$ -	\$ 7,464,308
Property and other taxes	670,908	148,678
Charges for services	38,692	527,313
Licenses, permits and fees	12,738	1,986
Fines and forfeitures	350,801	63,106
Intergovernmental	1,048,074	782,215
Special assessments	-	-
Investment income	347,305	16,377
Other	121,489	96,451
Total revenues	<u>2,590,007</u>	<u>9,100,434</u>
Expenditures:		
Current operations:		
General government	1,331,335	302,303
Security of persons and property	4,029,062	646,841
Public health and welfare	17,334	-
Transportation	-	675,386
Community environment	112,553	142,321
Leisure time activity	754,193	805,253
Economic development	87,235	8,583
Other	-	-
Capital outlay	-	101,672
Debt service:		
Principal retirement	-	12,662
Interest and fiscal charges	-	36,394
Total expenditures	<u>6,331,712</u>	<u>2,731,415</u>
Excess of revenues over (under) expenditures	<u>(3,741,705)</u>	<u>6,369,019</u>
Other financing sources (uses):		
Proceeds from sale of fixed assets	11,283	492
Operating transfers in	3,500,000	922,268
Operating transfers out	(502,268)	(7,205,000)
Total other financing sources (uses)	<u>3,009,015</u>	<u>(6,282,240)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(732,690)</u>	<u>86,779</u>
Fund balances, January 1	3,529,697	7,477,309
Decrease in reserve for inventory	-	(57,498)
Fund balances, December 31	<u><u>\$ 2,797,007</u></u>	<u><u>\$ 7,506,590</u></u>

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

Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$ -	\$ -	\$ -	\$ 7,464,308
-	-	-	819,586
-	-	-	566,005
-	-	-	14,724
-	-	-	413,907
-	107,079	-	1,937,368
-	47,139	-	47,139
-	12,230	10,110	386,022
-	51,842	4,584	274,366
-	218,290	14,694	11,923,425
-	-	-	1,633,638
-	-	-	4,675,903
-	-	-	17,334
-	50,065	-	725,451
-	-	-	254,874
-	6,452	9,974	1,575,872
-	-	-	95,818
-	7,990	2,500	10,490
-	3,120,976	41,614	3,264,262
170,000	-	-	182,662
204,088	-	-	240,482
374,088	3,185,483	54,088	12,676,786
(374,088)	(2,967,193)	(39,394)	(753,361)
-	-	-	11,775
400,000	2,885,000	-	7,707,268
-	-	-	(7,707,268)
400,000	2,885,000	-	11,775
25,912	(82,193)	(39,394)	(741,586)
55,238	2,606,996	885,961	14,555,201
-	-	-	(57,498)
\$ 81,150	\$ 2,524,803	\$ 846,567	\$ 13,756,117

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Income taxes	\$ -	\$ -	\$ -
Property taxes	661,550	698,148	36,598
Charges for services	23,100	26,844	3,744
Licenses, permits and fees	11,300	12,738	1,438
Fines and forfeitures	242,000	345,535	103,535
Intergovernmental	1,236,750	1,055,844	(180,906)
Special assessments	-	-	-
Investment income	540,000	376,411	(163,589)
Other	134,000	128,264	(5,736)
Total revenues	<u>2,848,700</u>	<u>2,643,784</u>	<u>(204,916)</u>
Expenditures:			
Current:			
General government	1,515,440	1,325,575	189,865
Security of persons and property	4,184,900	4,034,179	150,721
Public health and welfare	26,200	17,334	8,866
Transportation	-	-	-
Community environment	137,975	109,870	28,105
Leisure time activity	804,575	747,740	56,835
Economic development	94,800	86,437	8,363
Other	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>6,763,890</u>	<u>6,321,135</u>	<u>442,755</u>
Excess of revenues over (under) expenditures	<u>(3,915,190)</u>	<u>(3,677,351)</u>	<u>237,839</u>
Other financing sources (uses):			
Proceeds from sale of fixed assets	8,000	11,283	3,283
Operating transfers in	3,500,000	3,500,000	-
Operating transfers out	(500,000)	(502,268)	(2,268)
Total other financing sources (uses)	<u>3,008,000</u>	<u>3,009,015</u>	<u>1,015</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(907,190)</u>	<u>(668,336)</u>	<u>238,854</u>
Fund balance, January 1	3,518,325	3,518,325	-
Prior year encumbrances appropriated	181,192	181,192	-
Fund balance, December 31	<u><u>\$ 2,792,327</u></u>	<u><u>\$ 3,031,181</u></u>	<u><u>\$ 238,854</u></u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$ 6,830,000	\$ 7,273,985	\$ 443,985	\$ -	\$ -	\$ -
151,950	154,964	3,014	-	-	-
467,550	524,692	57,142	-	-	-
2,400	1,986	(414)	-	-	-
49,874	81,865	31,991	-	-	-
896,431	839,058	(57,373)	-	-	-
-	-	-	-	-	-
18,500	16,377	(2,123)	-	-	-
50,676	70,417	19,741	-	-	-
<u>8,467,381</u>	<u>8,963,344</u>	<u>495,963</u>	<u>-</u>	<u>-</u>	<u>-</u>
425,538	297,134	128,404	-	-	-
703,800	623,465	80,335	-	-	-
-	-	-	-	-	-
770,898	649,489	121,409	-	-	-
218,328	148,966	69,362	-	-	-
854,353	820,516	33,837	-	-	-
141,000	98,750	42,250	-	-	-
-	-	-	3,000	-	3,000
308,572	250,406	58,166	-	-	-
12,662	12,662	-	170,000	170,000	-
36,438	36,394	44	204,088	204,088	-
<u>3,471,589</u>	<u>2,937,782</u>	<u>533,807</u>	<u>377,088</u>	<u>374,088</u>	<u>3,000</u>
<u>4,995,792</u>	<u>6,025,562</u>	<u>1,029,770</u>	<u>(377,088)</u>	<u>(374,088)</u>	<u>3,000</u>
5,000	492	(4,508)	-	-	-
910,500	1,037,268	126,768	400,000	400,000	-
(7,205,000)	(7,320,000)	(115,000)	-	-	-
<u>(6,289,500)</u>	<u>(6,282,240)</u>	<u>7,260</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
(1,293,708)	(256,678)	1,037,030	22,912	25,912	3,000
5,515,427	5,515,427	-	55,238	55,238	-
59,428	59,428	-	-	-	-
<u>\$ 4,281,147</u>	<u>\$ 5,318,177</u>	<u>\$ 1,037,030</u>	<u>\$ 78,150</u>	<u>\$ 81,150</u>	<u>\$ 3,000</u>

(Continued)

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Capital Projects		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Income taxes	\$ -	\$ -	\$ -
Property taxes	-	-	-
Charges for services	-	-	-
Licenses, permits and fees	-	-	-
Fines and forfeitures	-	-	-
Intergovernmental	200,000	107,079	(92,921)
Special assessments	30,000	47,139	17,139
Investment income	25,000	12,230	(12,770)
Other	10,000	51,842	41,842
Total revenues	<u>265,000</u>	<u>218,290</u>	<u>(46,710)</u>
Expenditures:			
Current:			
General government	-	-	-
Security of persons and property	-	-	-
Public health and welfare	-	-	-
Transportation	-	-	-
Community environment	-	-	-
Leisure time activity	-	-	-
Economic development	-	-	-
Other	-	-	-
Capital outlay	4,492,848	3,658,419	834,429
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>4,492,848</u>	<u>3,658,419</u>	<u>834,429</u>
Excess of revenues over (under) expenditures	<u>(4,227,848)</u>	<u>(3,440,129)</u>	<u>787,719</u>
Other financing sources (uses):			
Proceeds from sale of fixed assets	-	-	-
Operating transfers in	2,335,000	2,885,000	550,000
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>2,335,000</u>	<u>2,885,000</u>	<u>550,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	<u>(1,892,848)</u>	<u>(555,129)</u>	<u>1,337,719</u>
Fund balance, January 1	2,458,767	2,458,767	-
Prior year encumbrances appropriated	162,949	162,949	-
Fund balance, December 31	<u><u>\$ 728,868</u></u>	<u><u>\$ 2,066,587</u></u>	<u><u>\$ 1,337,719</u></u>

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

Total (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$ 6,830,000	\$ 7,273,985	\$ 443,985
813,500	853,112	39,612
490,650	551,536	60,886
13,700	14,724	1,024
291,874	427,400	135,526
2,333,181	2,001,981	(331,200)
30,000	47,139	17,139
583,500	405,018	(178,482)
194,676	250,523	55,847
<u>11,581,081</u>	<u>11,825,418</u>	<u>244,337</u>
1,940,978	1,622,709	318,269
4,888,700	4,657,644	231,056
26,200	17,334	8,866
770,898	649,489	121,409
356,303	258,836	97,467
1,658,928	1,568,256	90,672
235,800	185,187	50,613
3,000	-	3,000
4,801,420	3,908,825	892,595
182,662	182,662	-
240,526	240,482	44
<u>15,105,415</u>	<u>13,291,424</u>	<u>1,813,991</u>
<u>(3,524,334)</u>	<u>(1,466,006)</u>	<u>2,058,328</u>
13,000	11,775	(1,225)
7,145,500	7,822,268	676,768
<u>(7,705,000)</u>	<u>(7,822,268)</u>	<u>(117,268)</u>
<u>(546,500)</u>	<u>11,775</u>	<u>558,275</u>
(4,070,834)	(1,454,231)	2,616,603
11,547,757	11,547,757	-
403,569	403,569	-
<u>\$ 7,880,492</u>	<u>\$ 10,497,095</u>	<u>\$ 2,616,603</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	<u>Proprietary Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	
Operating revenues:			
Charges for services	\$ 8,440,761	\$ 60,821	\$ 8,501,582
Other	567,282	-	567,282
Total operating revenues	<u>9,008,043</u>	<u>60,821</u>	<u>9,068,864</u>
Operating expenses:			
Personal services	2,244,505	50,168	2,294,673
Contract services	477,826	2,235	480,061
Materials and supplies	810,374	1,978	812,352
Depreciation	1,216,028	-	1,216,028
Utilities	436,470	4,350	440,820
Other	96,587	3,896	100,483
Total operating expenses	<u>5,281,790</u>	<u>62,627</u>	<u>5,344,417</u>
Operating income (loss)	<u>3,726,253</u>	<u>(1,806)</u>	<u>3,724,447</u>
Nonoperating revenues (expenses):			
Gain on disposal of fixed assets	83,817	-	83,817
Interest expense and fiscal charges	(595,223)	-	(595,223)
Investment earnings	37,077	-	37,077
Intergovernmental	37,463	-	37,463
Other nonoperating revenues	14,785	-	14,785
Other nonoperating expenses	(15,750)	-	(15,750)
Total nonoperating (expenses)	<u>(437,831)</u>	<u>-</u>	<u>(437,831)</u>
Income (loss) before contributions	3,288,422	(1,806)	3,286,616
Capital contributions	635,113	-	635,113
Net income (loss)	<u>3,923,535</u>	<u>(1,806)</u>	<u>3,921,729</u>
Addback of depreciation on assets acquired from contributed capital	160,212	-	160,212
Retained earnings, January 1	14,452,367	14,359	14,466,726
Retained earnings, December 31	<u>18,536,114</u>	<u>12,553</u>	<u>18,548,667</u>
Contributed capital, January 1	5,225,819	-	5,225,819
Disposals of contributed capital	(8,350)	-	(8,350)
Depreciation on fixed assets acquired by contributed capital	(160,212)	-	(160,212)
Contributed capital, December 31	<u>5,057,257</u>	<u>-</u>	<u>5,057,257</u>
Total fund equity, December 31	<u>\$ 23,593,371</u>	<u>\$ 12,553</u>	<u>\$ 23,605,924</u>

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

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	<u>Proprietary Fund Types</u>		Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Cash flows from operating activities:			
Cash received from charges for services	\$ 6,308,831	\$ 60,821	\$ 6,369,652
Cash received from other operations	567,838	-	567,838
Cash payments for personal services	(2,168,976)	(49,552)	(2,218,528)
Cash payments for contract services	(481,241)	(2,235)	(483,476)
Cash payments for materials and supplies	(870,331)	(1,503)	(871,834)
Cash payments for utilities	(422,517)	(4,350)	(426,867)
Cash payments for other expenses	(103,920)	(3,896)	(107,816)
Net cash provided by (used in) operating activities	<u>2,829,684</u>	<u>(715)</u>	<u>2,828,969</u>
Cash flows from noncapital financing activities:			
Cash received from operating grants	37,463	-	37,463
Cash from other non operating revenue.	503,643	-	503,643
Cash received from sale of fixed assets	91,009	-	91,009
Net cash provided by noncapital financing activities	<u>632,115</u>	<u>-</u>	<u>632,115</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(4,310,643)	-	(4,310,643)
Proceeds of debt issues	15,787	-	15,787
Principal retirement	(500,333)	-	(500,333)
Interest and fiscal charges	(576,631)	-	(576,631)
Net cash used in capital and related financing activities	<u>(5,371,820)</u>	<u>-</u>	<u>(5,371,820)</u>
Cash flows from investing activities:			
Interest received	37,077	-	37,077
Net cash provided by investing activities	<u>37,077</u>	<u>-</u>	<u>37,077</u>
Net decrease in and cash equivalents	(1,872,944)	(715)	(1,873,659)
Cash and cash equivalents at January 1	6,307,770	18,050	6,325,820
Cash and cash equivalents at December 31	<u>\$ 4,434,826</u>	<u>\$ 17,335</u>	<u>\$ 4,452,161</u>

(Continued)

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	<u>Proprietary Fund Types</u>		Total (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 3,726,253	\$ (1,806)	\$ 3,724,447
Adjustments to reconcile income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,216,028	-	1,216,028
Changes in assets and liabilities:			
Increase in materials and supplies inventory	(23,610)	-	(23,610)
Decrease in accounts receivable	48,484	-	48,484
Increase (decrease) in accounts payable	(34,397)	73	(34,324)
Increase in accrued wages and benefits	50,883	878	51,761
Increase in compensated absences payable	18,695	-	18,695
Decrease in deferred revenue	(2,179,858)	-	(2,179,858)
Increase in pension obligation payable	7,206	140	7,346
Net cash provided by (used in) operating activities	<u>\$ 2,829,684</u>	<u>\$ (715)</u>	<u>\$ 2,828,969</u>

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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 1 - THE REPORTING ENTITY

The City of Fremont (the City) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under a Council/Mayor form of government and provides the following services to its residents: Public Safety, Highways and Streets, Water, Sanitation, Health and Social Services, Culture Recreation, Public Improvements, Planning and Zoning, and General Administration Services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the reporting entity is defined to include the primary government, component units and other organizations that are included to insure that the financial statements are not misleading consistent with 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 powers, 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.

The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police protection, street maintenance and repairs, zoning, parks and recreation and water and sewer utilities. The preceding financial statements include all funds and account groups of the City (the primary government). The City has no component units, but is a member of an insurance purchasing pool, described in Note 16.

B. Basis of Presentation - Fund Accounting

The accounts of the City are maintained on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, as appropriate; and revenues, and expenditures or expenses, as appropriate.

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording 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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

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 because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use and balance 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 - The general fund is used to account for all activities of the City not required to be included in another fund.

Special Revenue Funds - The special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of financial resources for, and the payment of, general obligation long-term debt principal, interest and related costs.

Capital Projects Funds - The capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds).

PROPRIETARY FUNDS

Enterprise Funds - The enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the City is that the costs 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 FUNDS

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 governments, and/or other funds. These include expendable trust funds and Agency funds. Expendable Trust funds are accounted for in essentially the same manner as governmental funds. Agency funds have no measurement focus (i.e., assets equal liabilities), and are presented on a

**CITY OF FREMONT
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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

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 Asset Account Group - The general fixed assets account group is used to account for all general fixed assets of the City, other than those fixed assets accounted for in the proprietary funds.

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

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental and expendable trust funds use the modified accrual basis of accounting. Proprietary 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 income taxes, property taxes, grants, entitlements and donations. On an accrual

**CITY OF FREMONT
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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 6.B.). Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6.A.). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

DEFERRED REVENUE

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenues. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

EXPENSES/EXPENDITURES

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

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

D. Budgets

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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

TAX BUDGET

During the first Council meeting in July, the City Auditor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

ESTIMATED RESOURCES

The County Budget Commission determines if the budget justifies the need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased.

APPROPRIATIONS

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council.

LAPSING OF APPROPRIATIONS

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

ENCUMBRANCES

As part of formal budgetary control, purchases orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balances for subsequent-year expenditures.

**CITY OF FREMONT
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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

Note 14 provides a reconciliation of the budgetary-basis and GAAP-basis of accounting.

E. Cash and Cash Equivalents

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

During fiscal year 2002, investments were limited to STAR Ohio, U.S. government money market mutual funds and nonnegotiable certificates of deposit.

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 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 on December 31, 2002.

Following Ohio statutes and other legal provisions, the City Council has specified the funds to receive an allocation of interest earnings. The following funds were credited with more interest revenue than would have been received based upon its share of the City's internal investment pool during 2002, as follows:

	Interest Actually Received	Interest Based upon Share of Cash Fund Balance	Interest Assigned from Other Funds
General	\$ 347,305	\$ 80,052	\$ 267,253

For purpose 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 County are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments, to the extent that the investment was purchased from a specific fund.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the combined balance sheet as "Cash with Fiscal Agents" or "Cash in Segregated Accounts" since they are not required to be deposited into the City treasury.

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

**CITY OF FREMONT
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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

F. Inventory

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 expensed 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.

G. Fixed Assets

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the general fixed assets account group. Although the recognition of depreciation is optional for assets in the general fixed assets account group, the City has historically recognized depreciation in the general fixed assets account group. The City has not included infrastructure in the general fixed assets account group. The City maintains a policy of not capitalizing assets with a cost of less than five hundred dollars (\$500.00).

Property, plant and equipment acquired by the proprietary funds are stated at cost or estimated historical cost, including interest capitalized during construction and engineering fees where applicable. Contributed fixed assets are recorded at fair market value at the date received and the depreciation is charged to contributed capital. Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Estimated Lives Years
Machinery, equipment, furniture and fixtures	5 - 20
Buildings	40 - 60
Improvements other than buildings	20 - 50

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. There was no interest capitalized during the year.

The City's fixed assets are described in Note 9.

H. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, and special termination benefits are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Bonds, long-term loans, and special assessment bonds are recognized as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund for payment early in the following year.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the proprietary fund.

I. Compensated Absences

The liability for compensated absences is based on the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments as well as the sick leave accumulated by those employees expected to become eligible to receive termination benefits in the future.

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 city ordinance and/or policy, plus applicable additional salary related payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Fund Equity

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers or other funds.

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriations or expenditure, including amounts that are legally segregated for a specific future use. As a result, encumbrances, materials and supplies inventories, revolving loans receivable, and available debt service equity are recorded as reservations of fund balance. The City reports amounts set-aside by City Council for workers compensation as a designation of fund balance in the governmental funds. Designated fund balance indicates that portion of fund equity for which management has an intended use of the resources.

K. 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.

**CITY OF FREMONT
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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

2. 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.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as interfund loans receivable or payable on the combined balance sheet.
4. 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.
5. Nonrecurring and non-routine permanent transfers of equity are reported as residual equity transfers.

An analysis of interfund transactions is presented in Note 5.

L. Bond Discounts, Premiums and Issuance Costs

When the proceeds from general obligation bonded debt are placed in a governmental type fund, 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 type fund, 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 Retained Earnings/Fund Equity.

M. Contributions of Capital

Contributed capital represents donations by developers and grants restricted for capital construction. These assets are recorded at their fair market value on the date contributed and are not subject to repayment. Depreciation on those proprietary fund type assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at year-end. The enterprise funds received \$635,113 in capital contributions in 2002. Contributed capital in the enterprise funds at December 31, 2002 is \$5,057,257.

N. Restricted Assets

Certain proceeds of enterprise water fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is

**CITY OF FREMONT
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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

limited by applicable bond covenants. The "revenue bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "revenue bond debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. Retained earnings have been reserved for these restricted assets because the restriction has been legally imposed by a party outside of City Council.

Customer deposits are also held in the Water Fund to assure payment of utility bills, but retained earnings have not been reserved, since this restriction is imposed by City Council.

Restricted assets at December 31, 2002 are comprised of the following:

	Cash and Investments
Water Revenue Bond	\$ 199,478
Water Bond Reserve	20,291
Customer Deposits	52,981
Total Restricted Assets	\$ 272,750

O. Estimates

The preparation of the GPFS in conformity with GAAP 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.

P. Financial Reporting for Proprietary and Similar Fund Types

The City's financial statements have been prepared in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting". The City accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Q. Memorandum Only - Total Columns

The "total" columns on the GPFS are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

NOTE 3 - COMPLIANCE

Contrary to Ohio Law, the City did not obtain an increase/reduced amended certificate of estimated resources for several funds as of December 31, 2002.

**CITY OF FREMONT
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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

A. 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 Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment, and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

Cash on Hand: At year-end, the City had \$655 in undeposited cash on hand which is included on the combined balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents", but is not considered part of the City's carrying amount of deposits at year-end.

Cash in Segregated Accounts: At year-end, \$9,708 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". The Municipal Court also had \$200 in undeposited cash on hand at year-end.

Cash with Fiscal Agent: At year-end, \$906,303 was on deposit with the City's fiscal agents for Walsh Trust and Water Improvements. 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".

Restricted Assets:

Cash with Fiscal Agent: At year-end, \$219,769 was on deposit with the City's fiscal agents for JP Morgan and Water System Bond Fund. 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 "Cash with Fiscal Agent".

Equity in Pooled Cash and Cash Equivalents: At year-end, \$52,981 was on deposit for new water customer connection. This amount is included in the total amount of deposits reported below.

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".

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B. Deposits

At year-end, the carrying amount of the City's deposits was \$10,093,269 and the bank balance was \$10,599,764. Both amounts include non-negotiable certificates of deposit, cash with fiscal agents and cash in segregated accounts. Of the bank balance:

1. \$409,279 was covered by federal depository insurance; and
2. \$10,190,485 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

C. 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 and U.S. government money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 2	Fair Value
Investment in state treasurer's investment pool		6,336,895
U.S. government money market mutual funds	219,769	219,769
Total investments	\$ 219,769	\$ 6,556,664

The classification of cash and cash equivalents 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".

A reconciliation between the classifications of pooled cash and cash equivalents 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:

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	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 16,650,788	\$ -
Investments of the cash management pool:		
Investment in Star Ohio	(6,336,895)	6,336,895
U.S. government money market mutual funds	(219,769)	219,769
Cash on hand	(855)	-
GASB Statement No. 3	\$ 10,093,269	\$ 6,556,664

NOTE 5 - INTERFUND TRANSACTIONS

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

	Transfers In	Transfers Out
<u>General Fund</u>	\$ 3,500,000	\$ 502,268
<u>Special Revenue Funds</u>		
Municipal Income Tax	-	7,205,000
Public Recreation	320,000	-
Street Maintenance	100,000	-
Police Pension	260,000	-
Fire Pension	240,000	-
Criminal Justice	2,268	-
Total Special Revenue Funds	922,268	7,205,000
<u>Debt Service Fund</u>		
General Debt Service	400,000	-
<u>Capital Projects Funds</u>		
Capital Improvements	2,800,000	-
Fire Equipment	85,000	-
Total Capital Projects Funds	2,885,000	-
Total Operating transfers	\$ 7,707,268	\$ 7,707,268

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of the preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. Real property

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taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Fremont. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2002 was \$3.20 per \$1,000.00 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Real Property	\$ 200,642,040
Public Utility	9,193,890
Tangible Personal Property	<u>69,926,940</u>
Total valuation	<u><u>\$ 279,762,870</u></u>

B. Income Taxes

The City levies a municipal income tax of one and a half percent on all salaries, wages, commissions and other compensation, and net profits earned within the City as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality to a maximum of the total amount assessed.

Income tax receipts are credited to the Municipal Income Tax special revenue fund, and amounted to \$7,464,308 in 2002.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2002 primarily consisted of taxes, interest, accounts (billings for user charged services) and intergovernmental receivables. All receivables are considered fully collectible.

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A summary of principal receivables follows:

<u>General Fund</u>	
Real and Other Taxes	\$ 707,100
Due From Other Governments	522,446
Accounts	39,948
<u>Special Revenue Funds</u>	
Real and Other Taxes	2,188,430
Due From Other Governments	427,258
Accounts	11,885
<u>Enterprise Funds</u>	
Accounts	756,299

NOTE 8 - LOANS RECEIVABLE

The Fremont City Council created the Revolving Loan Committee and granted them the authority to act on behalf of the City of Fremont in making loans from the City's Revolving Loan Fund to qualified applicants within the revolving loan fund geographic area. At the close of 2002, there were loans to eight businesses with a total principal balance of \$437,844.

NOTE 9 - FIXED ASSETS

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

	Balance at 01/01/02	Additions	Deletions	Balance at 12/31/02
Land	\$ 732,209	\$ -	\$ -	\$ 732,209
Buildings	9,925,116	152,440	(109,459)	9,968,097
Improvements other than buildings	1,219,521	16,558	(44,632)	1,191,447
Machinery and equipment	4,674,037	463,776	(148,082)	4,989,731
Construction in progress	<u>2,838</u>	<u>1,474,635</u>	<u>(1,505)</u>	<u>1,475,968</u>
Total	16,553,721	2,107,409	(303,678)	18,357,452
Less: accumulated depreciation	<u>(5,073,132)</u>	<u>(766,776)</u>	<u>1,259</u>	<u>(5,838,649)</u>
Total general fixed assets	<u>\$ 11,480,589</u>	<u>\$ 1,340,633</u>	<u>\$ (302,419)</u>	<u>\$ 12,518,803</u>

B. A summary of the proprietary fund fixed assets at December 31, 2002 is as follows:

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(Continued)

	Balance 12/31/02
Land	\$ 899,291
Land improvements	454,524
Buildings and improvements	17,766,177
Furniture and equipment	10,597,291
Infrastructure	10,657,119
Construction in progress	4,087,252
Total gross assets	44,461,654
Less: accumulated depreciation	(16,112,858)
Total net assets	\$ 28,348,796

NOTE 10 - LONG TERM OBLIGATIONS

A. Changes in long-term obligations of the City during 2002 were as follows:

	Balance at 01/01/02	Additions	Reductions	Balance at 12/31/02
<u>General Long-Term Obligations:</u>				
Compensated Absences	\$ 515,783	\$ 120,112	\$ -	\$ 635,895
Police and Fire Accrued Liability	870,151	-	(12,662)	857,489
1999 General Obligation				
Construction Bond - 5.20%	4,460,000	-	(170,000)	4,290,000
Total general long-term obligations	\$ 5,845,934	\$ 120,112	\$ (182,662)	\$ 5,783,384

General obligation bonds are direct obligations of the City and will be paid from the debt service fund using property tax revenues. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid.

Police and fire accrued liabilities for past service costs are financed from property taxes received from a special .3 mill tax, as well as a general fund subsidy. Semi-annual payments are made to the Ohio Police and Fire Pension Fund. Payments will be made through the year 2035.

B. Changes in long-term debt for enterprise funds during 2002 were as follows:

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	Interest Rate	Balance at 1/1/02	Additions	Reductions	Balance at 12/31/02
<u>Long-Term Obligations:</u>					
Mortgage Revenue					
Bonds 1994	3.65-6.00%	\$ 2,430,000	\$ -	\$ (55,000)	\$ 2,375,000
General Obligation					
Bonds 1994	3.65-6.00%	5,420,000	-	(120,000)	5,300,000
Water/Sewer Various					
Purpose Bonds 1993	2.4-4.45%	2,185,000	-	(315,000)	1,870,000
OPWC Loan 2001	None	190,863	15,787	(10,333)	196,317
Total enterprise long-term obligations		<u>\$ 10,225,863</u>	<u>\$ 15,787</u>	<u>\$ (500,333)</u>	<u>\$ 9,741,317</u>

The various purpose, general obligation and mortgage revenue bonds are supported by full faith and credit of the City. The bonds will be retired with operating revenues of the water and sewer funds to the extent such revenues are available, or from the general operating revenues of the City.

During 2001, the City received a loan at \$190,863 from the Ohio Public Works Commission to be used for sewer improvements. OPWC loans are interest-free, providing repayment remains current. The loan will be repaid from sewer fund operating revenues. In the current year, the City received the remaining amount of the loan, \$15,787. The total loan from the Ohio Public Works Commission is \$206,650.

- C. The following is a summary of the City's future annual debt service requirements to maturity for long-term obligations outstanding at December 31, 2002.

Fiscal Year Ending December 31	General Long-Term Obligations			Enterprise	Total
	General Obligation Bonds	Police & Fire Pension	OPWC Loan	General Obligation and Revenue Bonds	
2003	\$ 372,797	\$ 49,057	\$ 10,332	\$ 1,068,626	\$ 1,500,812
2004	371,147	49,058	10,332	1,071,431	1,501,968
2005	374,128	49,055	10,333	1,072,458	1,505,974
2006	371,527	49,056	10,332	1,065,290	1,496,205
2007	373,630	49,056	10,333	1,071,718	1,504,737
2008-2012	1,865,683	245,279	51,662	3,170,824	5,333,448
2013-2017	1,865,424	245,280	51,663	3,172,771	5,335,138
2018-2022	745,925	245,280	41,330	3,160,123	4,192,658
2023	-	609,038	-	1,270,291	1,879,329
Total	6,340,261	1,590,159	196,317	16,123,532	24,250,269
Less: interest	(2,050,261)	(732,670)	-	(6,578,532)	(9,361,463)
Total	<u>\$ 4,290,000</u>	<u>\$ 857,489</u>	<u>\$ 196,317</u>	<u>\$ 9,545,000</u>	<u>\$ 14,888,806</u>

- D. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5 percent of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5 percent of the total taxation value of property. The

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statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2002, the City's total debt margin was \$29,456,251, and the unvoted debt margin was \$15,386,958; both amounts include available funds of \$81,150.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5 percent for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1 percent. Public safety division members contribute at 9 percent. The employer contribution rate for employees other than law enforcement and public safety division was 13.55 percent of covered payroll and 8.55 percent was the portion used to fund pension obligations for 2002. The employer contribution rate for law enforcement and public safety divisions was 16.70 percent of covered payroll and 11.70 percent was the portion used to fund pension obligations for 2002. Required employer contributions are equal to 100 percent of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$569,195, \$539,572, and \$423,540, respectively; 73.53 percent has been contributed for 2002 and 100 percent for 2001 and 2000. \$150,660, representing the unpaid contribution for 2002, is recorded as a liability within the respective funds.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0 percent of their annual covered salary, while the City is required to contribute 19.50 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2002, 2001, and 2000 were \$585,220, \$556,163, and \$524,658, respectively; 69.97 percent has been contributed for 2002 and 100 percent for the years 2001 and 2000. \$175,740, representing the unpaid contributions for 2002, is recorded as a liability within the respective funds.

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NOTE 12 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$210,033.

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

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

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

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

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

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B. Ohio Police and Fire Pension Fund

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

The number of participants eligible to receive health care benefits as of December 31, 2001 (the latest information available), is 13,174 for police officers and 10,239 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$124,321 and \$87,878, respectively. OP&F's total health care expense for the year ending December 31, 2001 (the latest information available), was \$122.299 million, which was net of member contributions of \$6.875 million.

NOTE 13 - OTHER EMPLOYEE BENEFITS

Compensated Absences

Employees earn vacation and sick leave at different rates which are also affected by length of service. Vacation can be carried over at different rates depending on the department. Police and dispatchers may carry over 40 hours for use during the first three months of the following year. Sick leave accrual is continuous, with a limit of 500 hours. Overtime worked is always paid to employees on the paycheck for the period in which it was worked.

Upon retirement, an employee can be paid for 42 percent of his/her accumulated hours of sick leave, except fire department employees, who are part time and do not accumulate sick leave. Upon retirement, termination, or death of the employee, accrued vacation is paid for time the employees have earned but not yet used.

As of December 31, 2002, the liability for unpaid compensated absences reported in the general long-term obligations account group was \$635,895. The liability for the non-current portion and the current portion of compensated absences in proprietary funds was \$316,363 and \$27,437, respectively at December 31, 2002. The total liability for the City's compensated absences for all fund types and account groups was \$979,695.

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NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Comparison (Budget Basis) - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

- 1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- 3) Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
- 4) Short-term note proceeds and note principal retirement are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
- 5) State statute requires short-term note debt to be repaid from the debt service fund (budget) as opposed to the fund that received the proceeds (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

	EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER FINANCING/(USES)			
	Governmental Fund Types			
	General Fund	Special General Fund	Debt Service Fund	Capital Service Fund
Budget basis	\$ (668,336)	\$ (256,678)	\$ 25,912	\$ (555,129)
Adjustments:				
Net adjustment for revenue accruals	(53,777)	137,090	-	-
Net adjustment for expenditure accruals	(63,990)	23,173	-	(64,507)
Net adjustment for other financing sources/(uses)	-	-	-	-
Encumbrances	53,413	183,194	-	537,443
GAAP Basis	\$ (732,690)	\$ 86,779	\$ 25,912	\$ (82,193)

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NOTE 15 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two enterprise funds which are intended to be self-supporting from user fees charged for services provided to consumers for water and sewer operations. Segment information as of and for the year ended December 31, 2002 is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues	\$ 5,648,874	\$ 3,359,169	\$ 9,008,043
Depreciation	659,679	556,349	1,216,028
Operating income	3,533,581	192,672	3,726,253
Capital contributions	503,643	131,470	635,113
Net income	3,667,385	256,150	3,923,535
Net working capital	2,607,934	1,863,100	4,471,034
Fixed Assets:			
Acquisitions	3,815,383	624,792	4,440,175
Disposals	100,680	65,471	166,151
Total assets	22,481,708	11,619,797	34,101,505
Long-term liabilities			
payable from fund revenues	7,727,981	2,066,317	9,794,298
Total equity	14,420,543	9,172,828	23,593,371
Contributed capital	2,109,184	2,948,073	5,057,257
Encumbrances outstanding at December 31, 2002	505,502	148,582	654,084

NOTE 16 - RISK MANAGEMENT

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

The Government belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with over 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

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

The Plan uses conventional insurance coverages and reinsures these coverages 100 percent, rather than using a risk pool of member funds to pay individual and collective losses. Therefore, the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

The City continued to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

NOTE 17 - CONTINGENCIES

A. Grants

The City receives financial assistance from various federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires the compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2002.

B. Litigation

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations. The City's management and legal counsel is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material adverse effect on the financial condition of the City.

NOTE 18 - CONTRACTUAL COMMITMENTS

During 2001, the City entered into an agreement with the CalPine Corporation ("CalPine") whereby the City agreed to upgrade its water and sewer capabilities to meet the needs of a new CalPine power plant to be constructed on the outskirts of the City. Estimated total cost of the upgrades at December 31 was \$20,211,500 and dealt with four basic areas of improvement: water mains from CalPine to the City trunk line, water treatment plant, water mains from the water treatment plant to CalPine, and the sewer pump station. Of this total, CalPine will pay \$18,185,100 and the City will pay \$2,045,400.

In 2002, CalPine remitted to the City \$503,643 which were recorded as capital contributions. As of December 31, 2002, CalPine has remitted to the City \$3,411,329, of which, \$3,261,717 was capitalized. City funds expended as of December 31 totaled \$167,998, all of which was capitalized. The Management expects the project to be completed during 2005.

Contracts related to this project outstanding at December 31, 2002 were as follows:

<u>Vendor</u>	<u>Amount Contract Amount</u>	<u>Amount Paid as of 12/31/2002</u>	<u>Balance of Contract 12/31/2002</u>
Finkbeiner, Pettis & Stroud, Inc.	<u>\$ 1,635,200</u>	<u>\$ 1,462,200</u>	<u>\$ 173,000</u>



**Auditor of State
Betty Montgomery**

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

City of Fremont
Sandusky County
323 South Front Street
Fremont, Ohio 43420-3067

To the Council:

We have audited the financial statements of the City of Fremont, Sandusky County, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated October 9, 2003 which was qualified for our inability to obtain sufficient evidential matter supporting the amounts reported as income tax revenue and the related receivables. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated October 9, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2002-002.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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 be 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 consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated October 9, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 9, 2003

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Ohio Revised Code § 5705.36 requires that on or about the first day of each fiscal year, the fiscal officer is to certify the total amounts from all sources which are available for expenditures from each fund. Also this section allows the City to request increased amended certificates of estimated resources and reduce amended certifications upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriations.

The Fiscal Officer obtained an Amendment Certificate from the County Auditor but the amended amounts were not consistently posted to the accounting records.

As of December 31, 2002 the City should have received an increased/decrease amended certificate for the following funds:

Fund	Estimated Receipts	Actual Receipts	Variance
General Fund	\$ 6,356,700	\$ 6,155,065	\$ (201,635)
Municipal Income Tax	6,830,500	7,274,134	443,634
Capital Improvement	2,208,000	2,914,698	706,698
Development Grant	200,000	-	(200,000)
Water Replacement Improvement	2,585,000	81,373	(2,503,627)
Sewer Replacement Improvement	2,143,250	137,665	(2,005,585)
Water Construction	17,100,000	520,862	(16,579,138)

Five other funds also had such variances in smaller relative amounts. To avoid over appropriating, we recommend the City obtain reduced and/ or increased amended certificates when required and post them to the accounting records on a timely basis.

FINDING NUMBER 2002-002

Material Weaknesses

The following weaknesses were noted in the Income Tax Department:

- Employers that withhold and remit City Income Tax on behalf of their employees are required to send W-2s to the Income Tax Department. The Department personnel are required to perform a reconciliation of withholdings at the end of the year. The process is not being completed for all W-2s' sent to the Department.

FINDING NUMBER 2002-002
(Continued)

- Income tax cards are not being filled out when a utility customer signs up for service.
- Income tax cards that are not completed properly are not investigated or reviewed to ensure all information is obtained.
- Delinquent accounts are not aggressively pursued.
- An accurate list of receivables is not maintained, thus there is no way to know what is owed to the City.
- Individuals that live inside the City limits but are employed outside the City limits are not filing income tax returns.

To improve controls over income tax collection, we recommend:

- Department personnel perform a reconciliation of withholdings at the end of the year by comparing the totals withheld per the W-2's to the total quarterly payments sent by the employer.
- Each utility customer be required to fill out an income tax card when signing up for service.
- Income Tax cards should be reviewed for completeness when received.
- Actively pursue collection income tax collections
- Implement procedures to ensure filing completeness such as mandatory filing or utilization of the state data base.
- Implement procedures to ensure all City residents are filing an income tax return.

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20172-001	Finding for Recovery	Yes	
2001-20172-002	ORC § 5705.41 (D) Failure to certify expenditures	No	Partially corrected. Reported in management letter.

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**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF FREMONT

SANDUSKY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 13, 2003**