



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF FREMONT
SANDUSKY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund.....	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Compliance (Non-GAAP Budgetary Basis) - All Governmental Fund Types	10
Combined Statement of Revenues, Expenses, and Changes in Fund Equity - All Proprietary Fund Types	14
Combined Statements of Cash Flows - All Proprietary Fund Types.....	15
Notes to the General Purpose Financial Statements.....	17
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing</i>	41
Schedule of Findings.....	43
Schedule of Prior Audit Findings.....	45

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Suite 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Fremont (the City) as of and for the year ended December 31, 2001, 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.

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.

In our opinion, 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, 2001, 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 August 14, 2002 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

August 14, 2002

This page intentionally left blank.

This page intentionally left blank.

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in pooled cash and cash equivalents	\$3,710,303	\$5,574,855	\$55,238	\$2,621,716
Cash and Cash Equivalents in segregated accounts	155	23,330		
Receivables (net of allowances for uncollectibles):				
Taxes	685,795	1,945,692		
Accounts	29,454	1,837		
Accrued interest	41,318			
Due from other governments	549,981	312,538		
Materials and supplies inventory		93,882		
Loans receivable		434,668		
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	\$5,017,006	\$8,386,802	\$55,238	\$2,621,716

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$5,655,631	\$18,050	\$390,031			\$18,025,824
360,155		569,610			953,250
804,783					2,631,487
		1,199			836,074
					42,517
242,885					862,519
					336,767
315,034					434,668
					315,034
52,016					52,016
239,968					239,968
25,140,191			\$11,480,589		36,620,780
				\$55,238	55,238
				5,790,696	5,790,696
\$32,810,663	\$18,050	\$960,840	\$11,480,589	\$5,845,934	\$67,196,838

(Continued)

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$62,041	\$9,188		\$14,720
Accrued wages and benefits	171,277	39,977		
Compensated absences payable				
Pension obligation payable	226,906	26,764		
Police and fire accrued pension				
Deferred revenue	1,027,085	833,564		
Deposits held and due to others				
Due to other governments				
Claims and judgments payable				
OPWC loans payable				
Accrued interest payable				
General obligation bonds payable				
Revenue bonds payable				
Payable from restricted assets:				
Refundable deposits				
Total liabilities	1,487,309	909,493		14,720
Equity and other credits:				
Investment in general fixed assets				
Contributed capital				
Retained earnings:				
Reserved for bond covenants				
Unreserved				
Fund balances:				
Reserved for encumbrances	123,535	38,785		151,724
Reserved for materials and supplies inventory		93,882		
Reserved for revolving loans receivable		434,668		
Reserved for debt service			\$55,238	
Reserved for tax revenue unavailable for appropriation	27,240	6,286		
Designated for budget stabilization	308,202			
Unreserved-undesignated	3,070,720	6,903,688		2,455,272
Total equity and other credits	3,529,697	7,477,309	55,238	2,606,996
Total liabilities, equity and other credits	\$5,017,006	\$8,386,802	\$55,238	\$2,621,716

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	
\$131,526	\$402				\$217,877
95,243	1,825				308,322
325,105				\$515,783	840,888
79,340	1,464				334,474
				870,151	870,151
2,179,858					4,040,507
		\$13,288			13,288
		57,929			57,929
		3,662			3,662
190,863					190,863
43,526					43,526
7,605,000				4,460,000	12,065,000
2,430,000					2,430,000
52,016					52,016
<u>13,132,477</u>	<u>3,691</u>	<u>74,879</u>		<u>5,845,934</u>	<u>21,468,503</u>
			\$11,480,589		11,480,589
5,225,819					5,225,819
291,984					291,984
14,160,383					14,160,383
					314,044
					93,882
					434,668
					55,238
					33,526
					308,202
	14,359	885,961			13,330,000
<u>19,678,186</u>	<u>14,359</u>	<u>885,961</u>	<u>11,480,589</u>		<u>45,728,335</u>
<u>\$32,810,663</u>	<u>\$18,050</u>	<u>\$960,840</u>	<u>\$11,480,589</u>	<u>\$5,845,934</u>	<u>\$67,196,838</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Municipal income tax		\$6,674,087
Property and other taxes	\$658,133	151,846
Charges for services	25,830	486,664
Licenses, permits and fees	11,005	
Fines and forfeitures	261,838	59,048
Special assessments		
Intergovernmental	1,414,806	784,427
Investment income	671,267	27,455
Other	208,940	42,638
	3,251,819	8,226,165
Expenditures:		
Current Operations:		
General government	1,170,949	342,736
Security of persons and property	3,949,159	604,733
Public health and welfare	17,362	
Transportation		703,372
Community environment	106,163	145,923
Leisure time activity	632,062	743,618
Economic development	83,193	40,000
Capital outlay		
Debt Service:		
Principal retirement		12,140
Interest and fiscal charges		36,915
	5,958,888	2,629,437
Excess of revenues over (under) expenditures	(2,707,069)	5,596,728
Other financing sources (uses):		
Proceeds from sale of fixed assets	6,918	19,619
Operating transfers in	3,500,000	906,179
Operating transfers out	(486,179)	(6,420,000)
	3,020,739	(5,494,202)
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	313,670	102,526
Fund balances, January 1 (Restated)	3,216,027	7,341,765
Increase in reserve for inventory		33,018
Fund balances, December 31	\$3,529,697	\$7,477,309

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	
			\$6,674,087
			809,979
			512,494
			11,005
			320,886
	\$16,255		16,255
	549,897		2,749,130
	37,458	\$22,953	759,133
		13,523	265,101
	<u>603,610</u>	<u>36,476</u>	<u>12,118,070</u>
			1,513,685
			4,553,892
			17,362
			703,372
			252,086
	14,720	65,034	1,455,434
			123,193
	2,275,660		2,275,660
\$165,000			177,140
209,862			246,777
<u>374,862</u>	<u>2,290,380</u>	<u>65,034</u>	<u>11,318,601</u>
<u>(374,862)</u>	<u>(1,686,770)</u>	<u>(28,558)</u>	<u>799,469</u>
			26,537
400,000	2,100,000		6,906,179
			(6,906,179)
<u>400,000</u>	<u>2,100,000</u>		<u>26,537</u>
25,138	413,230	(28,558)	826,006
30,100	2,193,766	914,519	13,696,177
			33,018
<u>\$55,238</u>	<u>\$2,606,996</u>	<u>\$885,961</u>	<u>\$14,555,201</u>

**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, 2001**

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Income taxes			
Property and other taxes	\$623,981	\$661,481	\$37,500
Charges for services	20,400	28,203	7,803
Licenses, permits and fees	11,750	11,005	(745)
Fines and forfeitures	224,000	256,803	32,803
Intergovernmental	1,248,100	1,432,602	184,502
Special assessments			
Investment income	550,000	672,213	122,213
Other	135,000	199,769	64,769
Total revenues	2,813,231	3,262,076	448,845
Expenditures:			
Current:			
General government	1,351,468	1,190,718	160,750
Security of persons and property	4,122,054	3,971,355	150,699
Public health and welfare	26,200	17,437	8,763
Transportation			
Community environment	123,544	104,328	19,216
Leisure time activity	782,725	739,476	43,249
Economic development	95,250	82,923	12,327
Capital outlay			
Debt service:			
Principal retirement			
Interest and fiscal charges			
Other			
Total expenditures	6,501,241	6,106,237	395,004
Excess of revenues over (under) expenditures	(3,688,010)	(2,844,161)	843,849
Other financing sources (uses):			
Proceeds from sale of fixed assets	10,000	6,918	(3,082)
Operating transfers in	3,500,000	3,500,000	
Operating transfers (out)	(486,179)	(486,179)	
Total other financing sources (uses)	3,023,821	3,020,739	(3,082)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(664,189)	176,578	840,767
Fund balances, January 1	3,271,572	3,271,572	
Prior year encumbrances appropriated	70,175	70,175	
Fund balances, December 31	2,677,558	3,518,325	840,767

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$6,855,000	\$6,691,733	(\$163,267)			
144,200	152,618	8,418			
438,450	490,191	51,741			
32,800	35,660	2,860			
1,073,263	913,966	(159,297)			
33,200	28,021	(5,179)	\$1,000		(\$1,000)
24,400	20,153	(4,247)			
<u>8,601,313</u>	<u>8,332,342</u>	<u>(268,971)</u>	<u>1,000</u>		<u>(1,000)</u>
434,972	342,939	92,033			
641,760	605,034	36,726			
798,950	736,765	62,185			
263,663	162,772	100,891			
818,860	744,256	74,604			
556,000	40,000	516,000			
12,140	12,140		165,000	\$165,000	
36,915	36,915		209,862	209,862	
			3,000		3,000
<u>3,563,260</u>	<u>2,680,821</u>	<u>882,439</u>	<u>377,862</u>	<u>\$374,862</u>	<u>3,000</u>
<u>5,038,053</u>	<u>5,651,521</u>	<u>613,468</u>	<u>(376,862)</u>	<u>(374,862)</u>	<u>2,000</u>
200	19,619	19,419			
1,303,000	906,179	(396,821)	400,000	400,000	
(6,420,000)	(6,420,000)				
<u>(5,116,800)</u>	<u>(5,494,202)</u>	<u>(377,402)</u>	<u>400,000</u>	<u>\$400,000</u>	
(78,747)	157,319	236,066	23,138	25,138	2,000
5,279,260	5,279,260		30,100	30,100	
78,848	78,848				
<u>5,279,361</u>	<u>5,515,427</u>	<u>236,066</u>	<u>53,238</u>	<u>\$55,238</u>	<u>2,000</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, 2001
(Continued)**

	Capital Projects		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:			
Income taxes			
Property and other taxes			
Charges for services			
Licenses, permits and fees			
Fines and forfeitures			
Intergovernmental	\$849,898	\$549,897	(\$300,001)
Special assessments	35,000	31,791	(3,209)
Investment income	45,000	38,247	(6,753)
Other	15,000		(15,000)
Total revenues	944,898	619,935	(324,963)
Expenditures:			
Current:			
General government			
Security of persons and property			
Public health and welfare			
Transportation			
Community environment			
Leisure time activity			
Economic development			
Capital outlay	4,452,419	2,489,820	1,962,599
Debt service:			
Principal retirement			
Interest and fiscal charges			
Other			
Total expenditures	4,452,419	2,489,820	1,962,599
Excess of revenues over (under) expenditures	(3,507,521)	(1,869,885)	1,637,636
Other financing sources (uses):			
Proceeds from sale of fixed assets			
Operating transfers in	1,800,000	2,100,000	300,000
Operating transfers (out)			
Total other financing sources (uses)	1,800,000	2,100,000	300,000
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,707,521)	230,115	1,937,636
Fund balances, January 1	1,170,586	1,170,586	
Prior year encumbrances appropriated	1,058,066	1,058,066	
Fund balances, December 31	521,131	2,458,767	1,937,636

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

Total (Memorandum Only)

Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$6,855,000	\$6,691,733	-\$163,267
768,181	814,099	45,918
458,850	518,394	59,544
44,550	46,665	2,115
224,000	256,803	32,803
3,171,261	2,896,465	(274,796)
35,000	31,791	(3,209)
629,200	738,481	109,281
174,400	219,922	45,522
12,360,442	12,214,353	(146,089)
1,786,440	1,533,657	252,783
4,763,814	4,576,389	187,425
26,200	17,437	8,763
798,950	736,765	62,185
387,207	267,100	120,107
1,601,585	1,483,732	117,853
651,250	122,923	528,327
4,452,419	2,489,820	1,962,599
177,140	177,140	
246,777	246,777	
3,000		3,000
14,894,782	11,651,740	3,243,042
(2,534,340)	562,613	3,096,953
10,200	26,537	16,337
7,003,000	6,906,179	(96,821)
(6,906,179)	(6,906,179)	
107,021	26,537	(80,484)
(2,427,319)	589,150	3,016,469
9,751,518	9,751,518	
1,207,089	1,207,089	
8,531,288	11,547,757	3,016,469

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	
Operating revenues:			
Charges for services	\$6,831,059	\$60,913	\$6,891,972
Other operating revenues	771,376		771,376
Total operating revenues	7,602,435	60,913	7,663,348
Operating expenses:			
Personal services	2,686,130	51,155	2,737,285
Contract services	583,279	1,981	585,260
Materials and supplies	814,753	3,064	817,817
Depreciation	1,177,736		1,177,736
Utilities	445,009		445,009
Other operating expense	79,079	6,096	85,175
Total operating expenses	5,785,986	62,296	5,848,282
Operating income (loss)	1,816,449	(1,383)	1,815,066
Nonoperating revenues (expenses):			
Loss on sale of fixed assets	(58,406)		(58,406)
Interest expense and fiscal charges	(616,945)		(616,945)
Investment earnings	54,725		54,725
Intergovernmental	94,007		94,007
Other nonoperating revenues	139,647		139,647
Total nonoperating expenses	(386,972)		(386,972)
Net income (loss)	1,429,477	(1,383)	1,428,094
Addback of depreciation on assets acquired from contributed capital	160,318		160,318
Retained earnings at January 1	12,862,572	15,742	12,878,314
Retained earnings at December 31	14,452,367	14,359	14,466,726
Contributed capital at January 1	5,386,137		5,386,137
Depreciation on fixed assets acquired by contributed capital	(160,318)		(160,318)
Contributed capital at December 31	5,225,819		5,225,819
Total fund equity at December 31	\$19,678,186	\$14,359	\$19,692,545

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, 2001**

	<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	\$6,728,459	\$60,913	\$6,789,372
Cash received from other operations	2,968,055		2,968,055
Cash payments for personal services	(2,648,946)	(50,411)	(2,699,357)
Cash payments for contract services	(563,499)	(1,981)	(565,480)
Cash payments for materials and supplies	(756,027)	(3,064)	(759,091)
Cash payments for utilities	(457,612)		(457,612)
Cash payments for other expenses	(120,442)	(6,096)	(126,538)
Net cash provided by (used in) operating activities	<u>5,149,988</u>	<u>(639)</u>	<u>5,149,349</u>
Cash flows from noncapital financing activities:			
Cash received from operating grants	94,007		94,007
Cash received from sale of fixed assets	2,097		2,097
Net cash provided by noncapital financing activities	<u>96,104</u>		<u>96,104</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(1,790,363)		(1,790,363)
Proceeds of debt issues	190,863		190,863
Principal retirement	(470,000)		(470,000)
Interest paid	(598,218)		(598,218)
Net cash used in capital and related financing activities	<u>(2,667,718)</u>		<u>(2,667,718)</u>
Cash flows from investing activities:			
Interest received	55,529		55,529
Net cash provided by investing activities	<u>55,529</u>		<u>55,529</u>
Net increase (decrease) in cash and cash equivalents	2,633,903	(639)	2,633,264
Cash and cash equivalents at January 1	3,673,867	18,689	3,692,556
Cash and cash equivalents at December 31	<u>\$6,307,770</u>	<u>\$18,050</u>	<u>\$6,325,820</u>

(Continued)

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	<u>Proprietary Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$1,816,449	(\$1,383)	\$1,815,066
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,177,736		1,177,736
Changes in assets and liabilities:			
Increase in deferred revenues	2,179,858		2,179,858
Decrease in materials and supplies inventory	20,498		20,498
Increase in accounts receivable	(103,181)		(103,181)
Increase in accounts payable	19,222	5	19,227
Increase in payables from restricted funds	2,206		2,206
(Decrease) Increase in accrued wages and benefits	(5,092)	168	(4,924)
Increase in compensated absences	22,459		22,459
Increase in pension obligation payable	19,833	571	20,404
Net cash provided by (used in) operating activities	<u>\$5,149,988</u>	<u>(\$639)</u>	<u>\$5,149,349</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, 2001**

NOTE 1 - THE REPORTING ENTITY

The City of Fremont 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 financial statements of the City of Fremont have been prepared in conformity with generally accepted accounting principles (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 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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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 Funds - The debt service funds are 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 budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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

All proprietary 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 funds 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 property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements,

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

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

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

Expenses/Expenditures

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

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

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.

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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 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.

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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, and investments" on the combined balance sheet.

During fiscal year 2001, investments were limited to STAR Ohio, U.S. Government Agency securities, and 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 non-negotiable certificates of deposit and repurchase agreements are reported at cost.

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

Following Ohio statutes and other legal provisions, the City Council has specified the funds to receive an allocation of interest earnings. The 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 2001, as follows:

Fund	Interest Actually Received	Interest Based Upon Share of Cash Fund Balance	Interest Assigned from Other Funds
General	<u>\$671,267</u>	<u>\$164,363</u>	<u>\$506,783</u>

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 and escrow agents" or "cash in segregated accounts" since they are not required to be deposited into the City treasury.

The change in fair value of applicable investments during fiscal year 2001 per GASB Statement No. 31 is as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

Fair Value at December 31, 2001	\$1,006,056
Proceeds of investments sold and matured in fiscal year 2001	1,765,000
Cost of investments purchased in fiscal year 2001	0
Fair value at December 31, 2000	<u>(2,730,020)</u>
 Change in fair value of investments during fiscal year 2001	 <u><u>\$41,036</u></u>

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

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 expenses in the proprietary funds when used. The total of inventories at year-end is reported as a reservation of fund balance in the governmental funds because it does not represent available, spendable resources.

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	45
Improvements other than buildings	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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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.

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, inventories, budget stabilization, revolving loans receivable, tax revenue unavailable for appropriation, and available debt service equity are recorded as reservations of fund balance.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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.
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 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. Non-recurring 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.

M. 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 limited by applicable bond covenants. The "water revenue bond" and "water bond reserve funds" accounts are used to segregate resources accumulated for debt service payments over the next

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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, 2001 are comprised of the following:

	<u>Cash and Investments</u>
Water Revenue Bond	\$199,401
Water Bond Reserve	40,567
Customer Deposits	<u>52,016</u>
Total Restricted Assets	<u>\$291,984</u>

N. Estimates

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

O. 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. This Statement is effective for financial statements beginning after December 15, 1993. 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.

P. Memorandum Only - Total Columns

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions and GASB Statement No. 36 Recipient Reporting for Certain Shared Nonexchange Revenues, an amendment of GASB Statement No. 33 were implemented during fiscal 2001. These statements pertain to the financial reporting of certain types of revenue received by the City for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions and voluntary nonexchange transactions.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

The adoption of these statements had the following effect on fund balances as previously reported by the City at December 31, 2000:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Fund balances as previously reported	\$3,018,673	\$7,259,691	\$2,193,766
GASB No. 33 and No. 36 implementation	<u>197,354</u>	<u>82,074</u>	<u>104,000</u>
Restated fund balances as of January 1, 2001	<u>\$3,216,027</u>	<u>\$7,341,765</u>	<u>\$2,297,766</u>

B. Correction of Prior Period Error

Contributed capital and fixed assets were overstated in the enterprise fund types for fiscal year 2000.

	<u>Enterprise</u>
Contributed Capital as previously reported	<u>\$5,466,599</u>
Correction of prior period contributed capital	<u>(80,462)</u>
Restated contributed capital as of January 1, 2001	<u>\$5,386,137</u>

This change had no material effect on net income as previously reported for the year ended December 31, 2000.

C. Legal Compliance

The City Auditor did not always certify the availability of funds for expenditure as required by Ohio Law.

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:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

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).

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 \$855 in undeposited cash on hand (in segregated accounts) which is included on the combined balance sheet of the County 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

Cash in Segregated Accounts: At year-end, \$33,509 was on deposit in segregated accounts for the Municipal Court and the Police Department, 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 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.

B. Deposits

At year-end, the carrying amount of the City's deposits was \$11,930,042 and the bank balance was \$12,437,350. Both amounts include non-negotiable certificates of deposit and deposits in segregated accounts, but exclude cash on hand and the payroll clearance account. Of the bank balance:

1. \$602,291 was covered by federal depository insurance; and
2. \$11,582,789 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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 is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Fair Value
U.S. Government Agency Security	\$1,006,056	\$1,006,056
Investments not Subject to Categorization:		
Investment in State Treasurer's Investment Pool	_____	6,334,105
Total Investments	\$1,006,056	\$7,340,161

The U.S. Government Agency Security has a maturity date of February, 2002.

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:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

	Cash and Cash Equivalents/ Deposits	Investments
Per GASB Statement No. 9	\$19,271,058	
Combined Balance Sheet Reclassifications:		
Investments of the Cash Management Pool:		
U.S. Government Agency Security	(1,006,056)	1,006,056
STAR Ohio	(5,415,219)	5,415,219
Water Replacement - STAR Ohio	(359,805)	359,805
Walsh Trust - STAR Ohio	(559,081)	559,081
Cash on Hand	(855)	
Per GASB Statement No. 3	\$11,930,042	\$7,340,161

NOTE 5 - INTERFUND TRANSACTIONS

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

Fund	Transfers In	Transfers Out
General Fund	\$3,500,000	\$486,179
<u>Special Revenue Funds</u>		
Municipal Income Tax		6,420,000
Public Recreation	320,000	
Street Maintenance	100,000	
Police Pension	250,000	
Fire Pension	230,000	
Criminal Justice	6,179	
Total Special Revenue Funds	906,179	6,420,000
<u>Debt Service Funds</u>		
General Debt Service	400,000	
<u>Capital Projects Funds</u>		
Capital Improvements	2,050,000	
Fire Equipment	50,000	
Total Capital Projects Funds	2,100,000	
Total Operating Transfers	\$6,506,179	\$6,906,179

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

percent of appraised market value. All property is required to be revalued every six years. Real property 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, 2001 was \$3.20 per \$1,000.00 of assessed value. The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

Real Property	\$195,676,450
Public Utility	12,545,750
Tangible Personal Property	<u>67,370,493</u>
Total Valuation	<u>\$275,592,693</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 \$6,674,087 in 2001.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2001 primarily consisted of taxes, interest, accounts (billings for user charged services) and intergovernmental receivables. All receivables are considered fully collectible.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

A summary of principal receivables follows:

<u>General Fund</u>	
Real and Other Taxes	\$ 685,795
Due From Other Governments	549,981
<u>Special Revenue Funds</u>	
Real and Other Taxes	1,945,692
Due From Other Governments	1,837
<u>Enterprise Funds</u>	
Accounts	
Charges for Services	804,783

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 2001, there were loans to eight businesses with a total principal balance of \$434,668.

NOTE 9 - FIXED ASSETS

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

<u>Asset Category</u>	<u>Balance at 1/1/2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/2001</u>
Land	\$732,209			\$732,209
Buildings	9,211,028	\$733,101	\$19,013	9,925,116
Improvements other than Buildings	1,001,465	220,105	2,049	1,219,521
Machinery and Equipment	4,390,627	497,459	214,049	4,674,037
Construction in Progress	34,203	2,838	34,203	2,838
Total	<u>15,369,532</u>	<u>1,453,503</u>	<u>269,314</u>	<u>16,550,883</u>
Less: Accumulated Depreciation	<u>4,363,684</u>	<u>720,581</u>	<u>11,133</u>	<u>5,073,132</u>
Total General Fixed Assets	<u><u>\$11,005,848</u></u>	<u><u>\$732,922</u></u>	<u><u>\$258,181</u></u>	<u><u>\$11,480,589</u></u>

B. A summary of the proprietary fund property, plant, and equipment at December 31, 2001 is as follows:

Land	\$161,723
Land Improvements	454,524
Buildings and Improvements	17,270,443
Furniture and Equipment	10,535,826
Infrastructure	10,548,393
Construction in Progress	1,220,076
Total Gross Assets	<u>40,190,985</u>
Less: Accumulated Depreciation	<u>15,050,794</u>
Total Net Assets	<u><u>\$25,140,191</u></u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

NOTE 10 - LONG TERM OBLIGATIONS

A. Changes in long-term obligations of the City during 2001 were as follows:

	Outstanding at 1/1/2001	Additions	Reductions	Outstanding at 12/31/2001
General Long-Term Obligations:				
Compensated Absences	\$454,280	\$61,503		\$515,783
Police and Fire Accrued Liability	882,291		\$12,140	870,151
1999 General Obligation				
Construction Bond - 5.20%	4,625,000		165,000	4,460,000
Total General Long-Term Obligations	\$5,961,571	\$61,503	\$177,140	\$5,845,934

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 & Fire Pension Fund. Payments will be made through the year 2040.

B. Changes in long-term debt for Enterprise funds during 2001 were as follows:

	Interest Rate	Outstanding at 1/1/2001	Additions	Reductions	Outstanding at 12/31/2001
Long-Term Obligations:					
Mortgage Revenue Bonds 1994	3.65%- 6.00%	\$2,480,000		\$50,000	\$2,430,000
General Obligation Bonds 1994	3.65%- 6.00%	5,535,000		115,000	5,420,000
Water/Sewer Various Purpose Bonds 1993	2.4%- 4.45%	2,490,000		305,000	2,185,000
OPWC Loan 2001	None		\$190,863		190,863
Total Long-Term Obligations		\$10,505,000	\$190,863	\$470,000	\$10,225,863

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 the year, 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. The total loan amount will ultimately be \$206,650; however, the remaining amount of \$15,787 was not received until 2002. Consequently, the OPWC loan amount outstanding at December 31, 2001 has not been included in the future debt service schedule shown below.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

- C. The following is a summary of the City's future annual debt service requirements to maturity for general obligation bonds:

Year Ending June 30	General Long-term Obligations		Enterprise Funds	Total
	General Obligation Bonds	Police and Fire Pension	General Obligation and Revenue Bonds	
2002	\$374,088	\$49,054	\$1,066,631	\$1,489,773
2003	372,797	49,057	1,068,626	1,490,480
2004	371,147	49,058	1,071,431	1,491,636
2005	374,128	49,055	1,072,458	1,495,641
2006	371,527	49,056	1,065,290	1,485,873
2007-2011	1,867,465	245,279	3,607,639	5,720,383
2012-2016	1,862,802	245,280	3,172,336	5,280,418
2017-2021	1,120,395	245,278	3,159,048	4,524,721
2022-2024		621,203	1,906,704	2,527,907
Total	6,714,349	1,602,320	17,190,163	25,506,832
Less: Interest	2,254,349	732,169	7,155,163	10,141,681
Total	<u>\$4,460,000</u>	<u>\$870,151</u>	<u>\$10,035,000</u>	<u>\$15,365,151</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% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2001, the City's total debt margin was \$24,532,471, and the unvoted debt margin was \$10,697,598; both amounts include available funds of \$55,238.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2001 was 8.5% for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. The employer

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

contribution rate for employees other than law enforcement was 13.55% of covered payroll; 9.25% was the portion used to fund pension obligations for 2001. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll; 12.40% was the portion used to fund pension obligations for 2001. The City's contributions for pension obligations to PERS for the years ended December 31, 2001, 2000, and 1999 were \$539,572, \$423,540, and \$497,619, respectively; 73 percent has been contributed for 2001 and 100 percent for 2000 and 1999. \$140,799, representing the unpaid contribution for 2001, is recorded as a liability within the respective funds.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary, while the City is required to contribute 19.5 percent and 24.0 percent for police officers and firefighters, respectively. The City's contributions for pension obligations to OP&F for the years ended December 31, 2001, 2000 and 1999 were \$556,163, \$524,658, and \$529,678, respectively. 70% has been contributed for 2001, and 100% has been contributed for both 2000 and 1999. The unpaid contribution for 2001 of \$165,558 is recorded as a liability within the respective funds.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The City's contribution actually made to fund post employment benefits was \$171,206.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

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

B. Ohio Police and Fire Pension Fund

The OP&F provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.0% and 7.25% of covered payroll in 2000 and 2001, respectively. The allocation is 7.75% in 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2000 (the latest information available), is 12,853 for police officers and 10,037 for firefighters. The amount of employer contributions in 2001 that were used to pay postemployment benefits was \$195,546. OP&F's total health care expenses for the year ending December 31, 2000 was \$106,160,054, which was net of member contributions of \$5,657,431.

NOTE 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

As of December 31, 2001, the liability for unpaid compensated absences reported in the General Long-Term Obligations Account Group was \$515,783. \$325,105 was the liability for the non-current portion of compensated absences in proprietary fund types. The total liability for the City's compensated absences for all fund types and account groups was \$840,888.

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 (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	Special Revenue	Debt Service	Capital Projects
Budget Basis	\$176,578	\$157,319	\$25,138	\$230,115
Net adjustment for revenue accruals	(10,257)	(106,177)		(16,325)
Net adjustment for expenditure accruals	(33,843)	(8,044)		36,491
Adjustment for encumbrances	181,192	59,428		162,949
GAAP Basis	\$313,670	\$102,526	\$25,138	\$413,230

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, 2001 is as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

	Water Fund	Sewer Fund	Total
Operating Revenues	\$4,194,208	\$3,408,227	\$7,602,435
Depreciation	648,167	529,569	1,177,736
Operating Income	1,206,192	610,257	1,816,449
Intergovernmental Revenues	94,007		94,007
Net income	619,962	809,515	1,429,477
Net working capital	5,026,682	2,242,139	7,268,821
Fixed Assets:			
Acquisitions	1,214,574	993,425	2,207,999
Disposals	(117,739)	(815,536)	(933,275)
Total assets	21,159,917	11,654,101	32,814,018
Long-term liabilities			
payable from fund revenues	7,992,472	2,558,496	10,550,968
Total equity	12,933,016	8,928,383	21,861,399
Contributed Capital	2,147,349	2,826,825	4,974,174
Encumbrances Outstanding at December 31, 2001	2,426,073	233,476	2,659,549

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 Section 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%, 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.

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 - CONTINGENT LIABILITIES

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2001.

B. Litigation

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 - DESIGNATED BALANCE ACCOUNT

The City has established, in accordance with section 5705.13 of the Ohio Revised Code, an account for the express purpose of budget stabilization. Current legislation provides that the amount designated may not exceed 5% of the general fund's revenue for the preceding fiscal year and that the reserve balance is not to be considered part of the unencumbered balance when certifying available balances at year-end. The City Council established the designation in the General fund in the amount of \$308,202. These funds are intended to be used for future workers compensation claims.

NOTE 19 - CONTRACTUAL COMMITMENTS

During the fiscal year, 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 \$2,025,400.

As of December 31, CalPine had remitted to the City \$2,907,685, of which, \$796,391 was capitalized. City funds expended as of December 31 totaled \$32,351, all of which was capitalized. Management expects the project to be completed during 2004.

Contracts related to this project outstanding at December 31, 2001 were as follows:

Vendor	Total Contract Amount	Amount Paid at 12/31/2001	Balance of Contract at 12/31/2001
Finkbeiner, Pettis & Stroud, Inc.	\$1,438,100	\$450,889	\$987,211
Underground Pipe Co.	1,126,947		1,126,947
Brint Electric	59,400		59,400
Toltest, Co.	6,300		6,300
Total Contractual Commitments	\$2,630,747	\$450,889	\$2,179,858

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Suite 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS 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 City Council:

We have audited the financial statements of the City of Fremont (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated August 14, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-20172-001 and 2001-20172-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 14, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 August 14, 2002.

This report is intended for the information and use of the finance committee, management and City 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, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long, horizontal stroke extending to the right.

Jim Petro
Auditor of State

August 14, 2002

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001**

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

FINDING NUMBER 2001-20172-001

Finding Repaid Under Audit

The City Auditor paid the estate of an employee for time worked and unused leave in accordance with the union agreement. Time worked was calculated using eight hours more than the actual time worked resulting in an overpayment of wages and benefits.

	Hours	Pay Rate	Amount Due
Regular Hours Worked	56.00	21.38	\$1,197.28
Overtime Hours Worked	0.25	32.07	8.02
Vacation Balance	80.00	21.38	1,710.40
Credit Reference to Sick Leave	40.00	21.38	855.20
Holidays	52.00	21.38	1,111.76
Compensatory Time	11.75	21.38	251.22
Sick Leave Balance (max 600)	600.00	21.38	12,828.00
Refund of Insurance Premium			22.55
Total Payout Due			17,984.42
Payout Paid			18,155.46
Amount Overpaid			\$171.04

The City Auditor, Fred Recktenwald, repaid the City on pay-in number 22609 dated August 12, 2002.

FINDING NUMBER 2001-20172-002

Noncompliance Citation

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

This section also provides two exceptions to the above requirement:

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

FINDING NUMBER 2001-20172-002
(Continued)

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

Twenty-two percent of the transactions tested were not certified prior to the expenditure or order being placed, and Then and Now Certificates were not issued. Twelve percent of the transactions which had not been certified were for payments made to recreation referees, scorekeepers and lifeguards.

To improve controls over disbursements we recommend all disbursements receive certification of the fiscal officer that the funds are or were available prior to the expenditure or order being placed.

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-20172-001	Utility and Recreation departments were not making daily deposits for money received.	No	Substantial progress has been made in correcting this issue. The City began using a courier services for deposits which has substantially improved daily depositing. A management letter comment will be made.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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
SEPTEMBER 5, 2002**