



**Auditor of State
Betty Montgomery**

**CITY OF FREMONT
SANDUSKY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

City of Fremont
Sandusky County
323 South Front Street
Fremont, Ohio 43420-3037

To the City Council:

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

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

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

In our opinion, except for the effects, if any, as might have been determined to be necessary had we been able to obtain sufficient evidential matter supporting the amounts reported as income tax revenue and related receivables for the governmental activities and Income Tax fund, the

financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Income Tax fund of the City of Fremont, Sandusky County, Ohio, as of December 31, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the business-type activities, the General fund, the Capital Improvement fund, and the aggregate remaining fund information for the City of Fremont, Sandusky County, as of December 31, 2003 and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons for the General and Income Tax funds thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note 10, the City changed its capital assets threshold policy during 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



Betty Montgomery
Auditor of State

October 7, 2004

**CITY OF FREMONT
SANDUSKY COUNTY**

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

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

Financial Highlights

Key financial highlights for 2003 are as follows:

- The total net assets of the City increased \$8,218,976 or 14.94 percent over 2002. Net assets of governmental activities increased \$1,909,988 or 6.21 percent over 2002 and net assets of business-type activities increased \$6,308,988 or 26.02 percent over 2002.
- General revenues accounted for \$9,803,628 or 80.83 percent of total governmental activities revenue. Program specific revenues accounted for \$2,324,659 or 19.17 percent of total governmental activities revenue.
- The City had \$10,218,299 in expenses related to governmental activities; \$2,324,659 of these expenses was offset by program specific charges for services, grants, or contributions. The remaining expenses of the governmental activities of \$7,893,640 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$9,803,628.
- The general fund had revenues of \$2,572,069 in 2003. This represents a decrease of \$17,938 or 6.93 percent from 2002. The expenditures of the general fund, which totaled \$6,412,448 in 2003, increased \$80,736 or 1.28 percent from 2002. The net decrease in fund balance for the general fund was \$228,868 or 8.18 percent.
- The municipal income tax fund had revenues of \$7,237,866 in 2003. The expenditures of the municipal income tax fund totaled \$318,303 in 2003. The municipal income tax fund had transfers out to other funds in the amount of \$6,910,000. The net increase in fund balance for the municipal income tax fund was \$9,563.
- The capital improvement fund had revenues of \$68,755 in 2003. The expenditures of the capital improvement fund totaled \$1,535,195 in 2003. The capital improvement fund had transfers in from other funds totaling \$1,900,000. The net increase in fund balance for the capital improvement fund was \$433,560.

**CITY OF FREMONT
SANDUSKY COUNTY**

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

- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2003 by \$6,308,988. This increase in net assets was due primarily to capital contributions and charges for services revenue sufficient to cover operating expenses.
- In the general fund, actual revenues were \$58,347 higher than the final budget revenues and actual expenditures were \$389,233 less than the final budget expenditures. These positive variances are the result of the City's conservative budgeting. Budgeted expenditures increased \$71,000 from the original budget to the final budget, primarily due to an increase in security of persons and property expenditures.

Using this Annual Financial Report

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

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

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

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many

**CITY OF FREMONT
SANDUSKY COUNTY**

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

factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 26.

Governmental Funds

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

**CITY OF FREMONT
SANDUSKY COUNTY**

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, municipal income tax fund, and capital improvements fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 26-31 of this report.

Proprietary Funds

The City maintains three different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer management functions. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 32-35 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 36 of this report.

**CITY OF FREMONT
SANDUSKY COUNTY**

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements begin on page 37 of this report.

Government-Wide Financial Analysis

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

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

	Net Assets		
	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 17,038,390	\$ 15,033,384	\$ 32,071,774
Capital assets	22,957,645	28,787,720	51,745,365
<i>Total assets</i>	<u>39,996,035</u>	<u>43,821,104</u>	<u>83,817,139</u>
Liabilities			
Long-term liabilities outstanding	5,626,672	12,728,872	18,355,544
Other liabilities	1,699,022	535,112	2,234,134
<i>Total liabilities</i>	<u>7,325,694</u>	<u>13,263,984</u>	<u>20,589,678</u>
Net Assets			
Invested in capital assets, net of related debt	18,842,645	18,926,736	37,769,381
Restricted	2,341,566	2,530,000	4,871,566
Unrestricted	11,486,130	9,100,384	20,586,514
<i>Total net assets</i>	<u>\$ 32,670,341</u>	<u>\$ 30,557,120</u>	<u>\$ 63,227,461</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$63,227,801. At year-end, net assets were \$32,067,341 and \$30,557,120 for the governmental activities and the business-type activities, respectively.

**CITY OF FREMONT
SANDUSKY COUNTY**

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

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 57.40 percent of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2003, were \$18,842,645 and \$18,926,736 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2003, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$2,341,566, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$11,486,130 may be used to meet the government's ongoing obligations to citizens and creditors.

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

Change in Net Assets			
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues:			
Charges for services	\$ 1,005,796	\$ 6,907,673	\$ 7,913,469
Operating grants and contributions	1,226,582	-	1,226,582
Capital grants and contributions	92,281	6,750,000	6,842,281
<i>Total program revenues</i>	2,324,659	13,657,673	15,982,332

(Continued)

**CITY OF FREMONT
SANDUSKY COUNTY**

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

Change in Net Assets (Continued)

	Governmental Activities	Business-type Activities	Total
General revenues:			
Property taxes	901,694	-	901,694
Income taxes	7,398,224	-	7,398,224
Unrestricted grants and entitlements	1,160,653	-	1,160,653
Investment earnings	168,913	21,879	190,792
Miscellaneous	174,144	312,385	486,529
<i>Total general revenues</i>	<u>9,803,628</u>	<u>334,264</u>	<u>10,137,892</u>
<i>Total revenues</i>	<u>12,128,287</u>	<u>13,991,937</u>	<u>26,120,224</u>
Expenses:			
General government	1,673,224	-	1,673,224
Security of persons and property	5,016,845	-	5,016,845
Public health and welfare	16,598	-	16,598
Transportation	1,059,161	-	1,059,161
Community environment	248,194	-	248,194
Leisure time activity	1,626,569	-	1,626,569
Economic development	330,910	-	330,910
Other	13,249	-	13,249
Interest and fiscal charges	233,549	-	233,549
Water	-	4,439,376	4,439,376
Sewer	-	3,243,573	3,243,573
<i>Total expenses</i>	<u>10,218,299</u>	<u>7,682,949</u>	<u>17,901,248</u>
<i>Increase in net assets</i>	1,909,988	6,308,988	8,218,976
<i>Net assets at beginning of year (restated)</i>	<u>30,760,353</u>	<u>24,248,132</u>	<u>55,008,485</u>
<i>Net assets at end of year</i>	<u>\$ 32,670,341</u>	<u>\$ 30,557,120</u>	<u>\$ 63,227,461</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

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

Governmental Activities

Governmental activities net assets increased \$1,909,988 in 2003. This increase is a result of slightly decreasing expenses and an increase in municipal income taxes versus amounts reported in the prior year.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,016,845 of the total expenses of the City. These expenses were partially funded by \$398,018 in direct charges to users of the services. General government expenses totaled \$1,673,224. General government expenses were partially funded by \$83,019 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$1,226,582 in operating grants and contributions and \$92,281 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$828,807 subsidized transportation programs, \$107,715 subsidized community environment programs, and \$261,298 subsidized economic development activities.

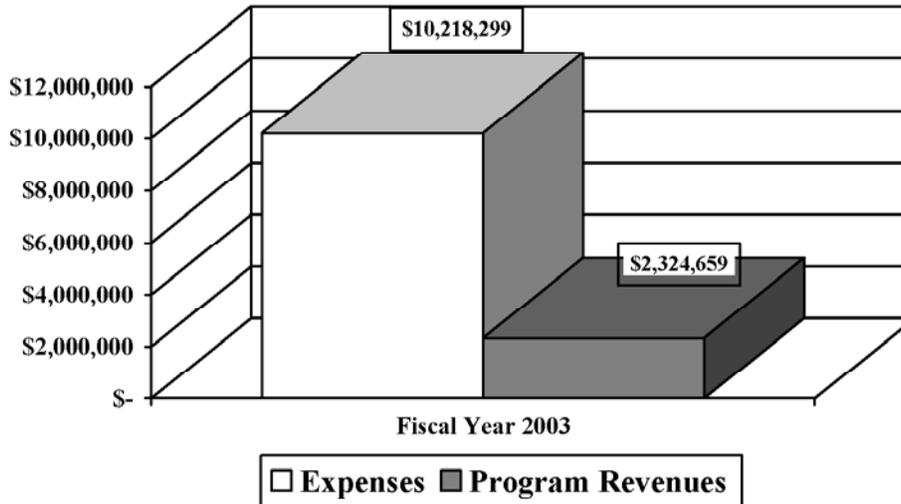
General revenues totaled \$9,803,628, and amounted to 80.83 percent of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,299,918. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$1,160,653. In August 2001, the State placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2002.

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

**CITY OF FREMONT
SANDUSKY COUNTY**

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

Governmental Activities – Program Revenues vs. Total Expenses



Governmental Activities

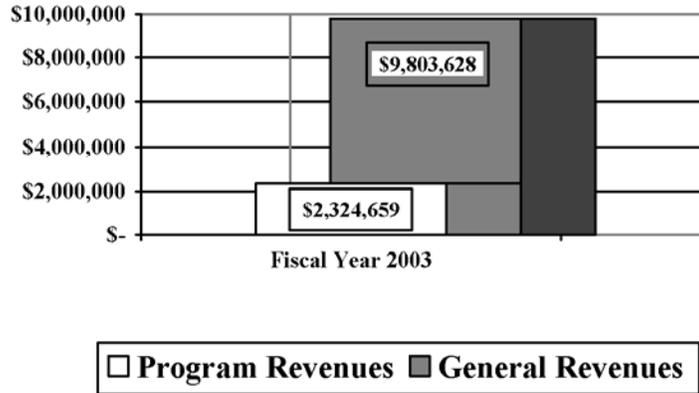
	Total Cost of Services 2003	Net Cost of Services 2003
Program Expenses:		
General government	\$ 1,673,224	\$ 1,590,205
Security of persons and property	5,016,845	4,590,065
Public health and welfare	16,598	16,598
Transportation	1,059,161	93,727
Community environment	248,194	128,915
Leisure time activity	1,626,569	1,157,720
Economic development	330,910	69,612
Other	13,249	13,249
Interest and fiscal charges	233,549	233,549
<i>Total Expenses</i>	<u>\$ 10,218,299</u>	<u>\$ 7,893,640</u>

The dependence upon general revenues for governmental activities is apparent, with 77.25 percent of expenses supported through taxes and other general revenues.

**CITY OF FREMONT
SANDUSKY COUNTY**

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

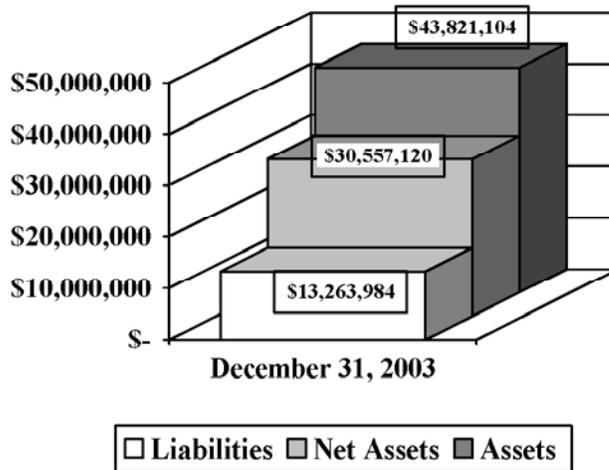
Governmental Activities – General and Program Revenues



Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$13,657,673, general revenues of \$334,264 and expenses of \$7,682,949 for 2003. The graph below shows the business-type activities assets, liabilities, and net assets at year-end.

Net Assets in Business – Type Activities



**CITY OF FREMONT
SANDUSKY COUNTY**

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

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 26) reported a combined fund balance of \$13,871,880 which is \$115,763 above last year's total of \$13,756,117 (as restated). The December 31, 2002 fund balances have been restated as described in Note 3 to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2003 for all major and nonmajor governmental funds.

	Fund Balances 12/31/03	Fund Balances 12/31/02	Increase (Decrease)
Major funds:			
General	\$ 2,569,332	\$ 2,798,200	\$ (228,868)
Municipal income tax	4,653,180	4,643,617	9,563
Capital improvements	2,586,104	2,152,544	433,560
Other nonmajor governmental funds	4,063,264	4,161,756	(98,492)
<i>Total</i>	<u>\$ 13,871,880</u>	<u>\$ 13,756,117</u>	<u>\$ 115,763</u>

General Fund

The City's general fund balance decreased \$228,868, primarily due to increasing expenditures and decreasing revenues. The table that follows assists in illustrating the revenues of the general fund.

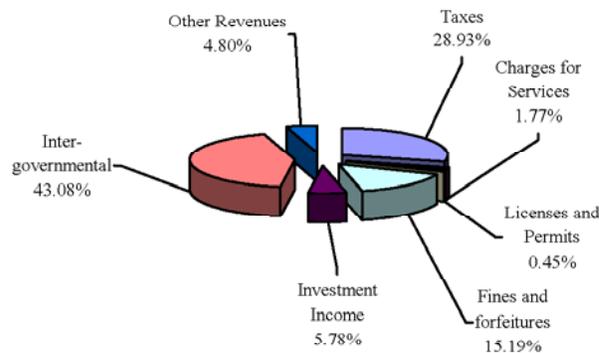
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

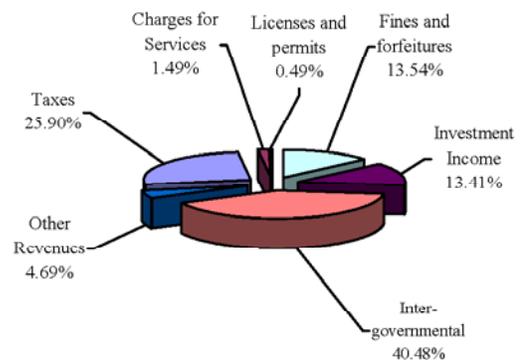
Revenues	<u>2003 Amount</u>	<u>2002 Amount</u>	<u>Percentage Change</u>
Taxes	\$ 743,977	\$ 670,908	10.89 %
Charges for services	45,429	38,692	17.41 %
Licenses and permits	11,564	12,738	(9.22) %
Fines and forfeitures	390,770	350,801	11.39 %
Intergovernmental	1,108,314	1,048,074	5.75 %
Investment income	148,555	347,305	(57.23) %
Other	123,460	121,489	1.62 %
<i>Total</i>	<u>\$ 2,572,069</u>	<u>\$ 2,590,007</u>	(0.69) %

Tax revenue represents 28.93 percent of all general fund revenue. Tax revenue increased slightly by 10.89 percent over prior year. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. The increase in taxes revenue is due to an increase in the collections of real and other taxes. All other revenue remained comparable to 2002.

Revenues – Fiscal Year 2003



Revenues – Fiscal Year 2002



**CITY OF FREMONT
SANDUSKY COUNTY**

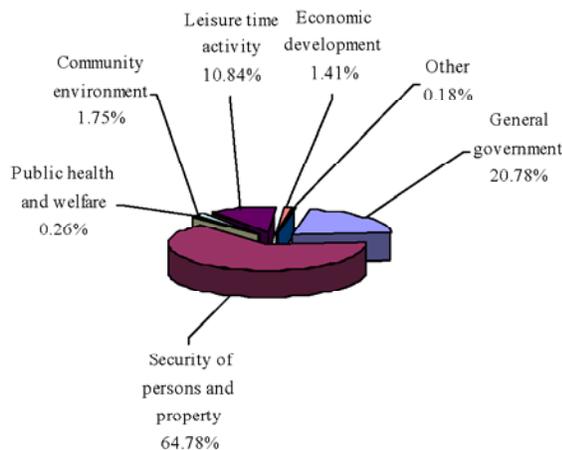
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

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

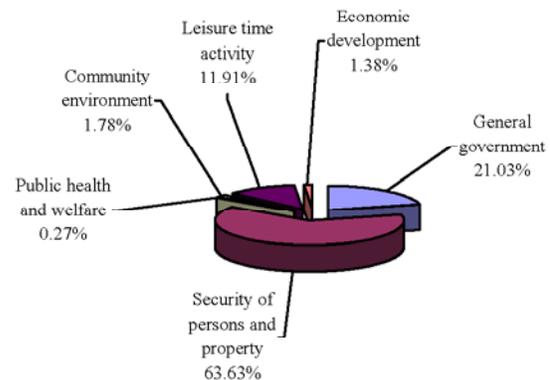
Expenditures	<u>2003 Amount</u>	<u>2002 Amount</u>	<u>Percentage Change</u>
General government	\$ 1,332,571	\$ 1,331,335	0.09 %
Security of persons and property	4,154,288	4,029,062	3.11 %
Public health and welfare	16,598	17,334	(4.25) %
Community environment	111,921	112,553	(0.56) %
Leisure time activity	695,079	754,193	(7.84) %
Economic development	90,369	87,235	3.59 %
Other	11,622	-	100.00 %
<i>Total</i>	<u>\$ 6,412,448</u>	<u>\$ 6,331,712</u>	1.28 %

The most significant decrease was in the area of leisure time activity. This decrease is primarily due to the control of expenditures by the City. All other expenditures remained comparable to 2002. The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services.

Expenditures - Fiscal Year 2003



Expenditures - Fiscal Year 2002



**CITY OF FREMONT
SANDUSKY COUNTY**

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

Municipal Income Tax Fund

The municipal income tax fund had revenues of \$7,237,866 in 2003. The expenditures of the municipal income tax fund totaled \$318,303 in 2003. The municipal income tax fund had transfers out to other funds in the amount of \$6,910,000. The net increase in fund balance for the municipal income tax fund was \$9,563.

Capital Improvement Fund

The capital improvement fund had revenues of \$68,755 in 2003. The expenditures of the capital improvement fund totaled \$1,535,195 in 2003. The capital improvement fund had transfers in from other funds totaling \$1,900,000. The net increase in fund balance for the capital improvement fund was \$433,560.

Budgeting Highlights

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

Budgetary information is presented for the general fund and municipal income tax fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures, which increased \$71,000 from \$6,751,130 to \$6,822,130. Actual revenues of \$2,584,114 exceeded final budgeted revenues by \$58,347. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$389,233 lower than the final budgeted amounts.

In the municipal income tax fund, one of the most significant changes was between the actual revenues of \$7,315,608 exceeding final budgeted revenues by \$250,058. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$65,222 lower than the final budgeted amounts.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal

**CITY OF FREMONT
SANDUSKY COUNTY**

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

balances due to governmental activities for internal service activities. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the City had \$51,745,365 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress (CIP). Of this total, \$22,957,645 was reported in governmental activities and \$28,787,720 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

**Capital Assets at December 31
(Net of Depreciation)**

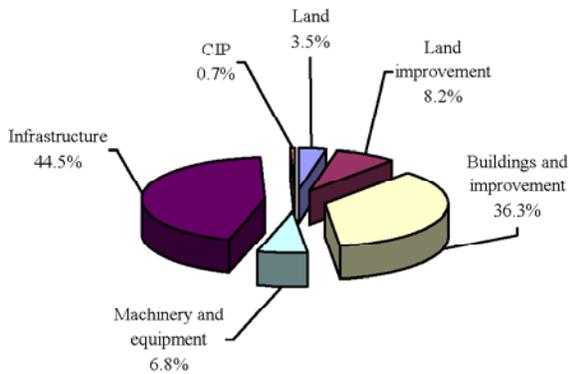
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 798,709	\$ 732,209	\$ 899,291	\$ 899,291	\$ 1,698,000	\$ 1,631,500
Land improvements	1,879,325	1,387,821	181,830	140,311	2,061,155	1,528,132
Buildings and improvements	8,338,591	6,989,540	14,105,530	14,507,240	22,444,121	21,496,780
Machinery and equipment	1,570,680	1,619,140	2,079,788	2,280,703	3,650,468	3,899,843
Infrastructure	10,218,972	9,565,067	9,275,371	7,038,369	19,494,343	16,603,436
Construction in progress	151,368	1,425,579	2,245,910	4,137,643	2,397,278	5,563,222
Totals	\$ 22,957,645	\$ 21,719,356	\$ 28,787,720	\$ 29,003,557	\$ 51,745,365	\$ 50,722,913

**CITY OF FREMONT
SANDUSKY COUNTY**

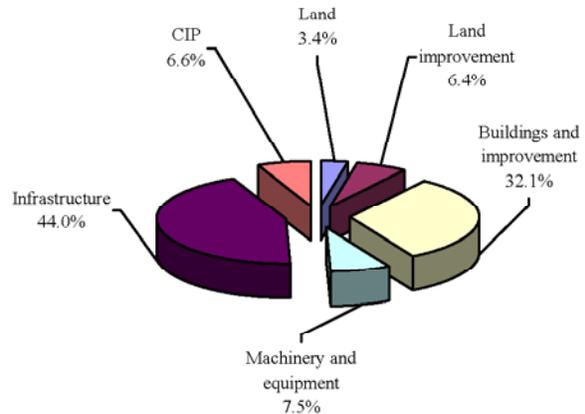
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

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

Capital Assets - Governmental Activities 2003



Capital Assets - Governmental Activities 2002



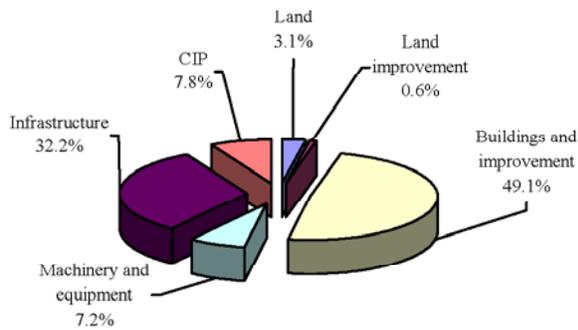
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 44.5 percent of the City's total governmental capital assets.

**CITY OF FREMONT
SANDUSKY COUNTY**

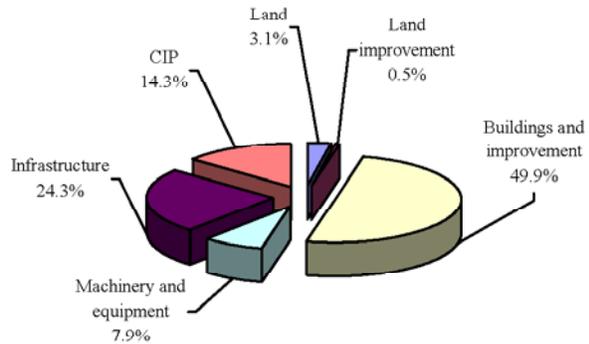
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

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

Capital Assets - Business-Type Activities 2003



Capital Assets - Business-Type Activities 2002



The City's second largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 32.2 percent of the City's total business-type capital assets.

Debt Administration

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

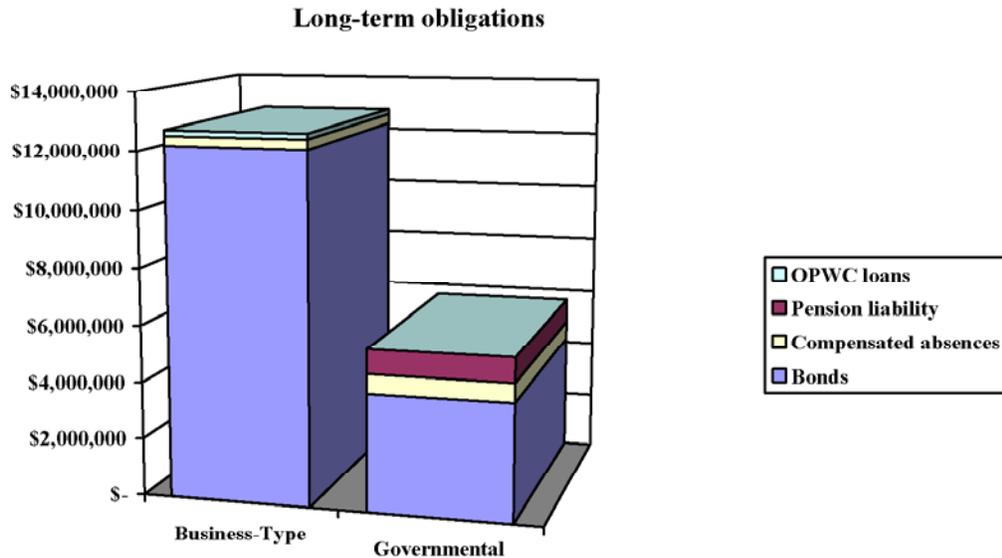
Governmental Activities		
	2003	2002
Compensated absences	\$ 664,888	\$ 635,895
General obligation bonds	4,115,000	4,290,000
Pension liability	846,784	859,447
<i>Total long-term obligations</i>	<u>\$ 5,626,672</u>	<u>\$ 5,785,342</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

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

Business-type Activities		
	2003	2002
General obligation bonds	\$ 12,205,000	\$ 7,170,000
Mortgage revenue bonds	-	2,375,000
OPWC loans	185,984	196,317
Compensated absences	337,888	343,800
	\$ 12,728,872	\$ 10,085,117

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



Economic Conditions and Outlook

Fremont continues to make Site Selection magazine's list of America's Top 50 Small Towns for Corporate Facilities. The most recent study compared new and expanded facilities during 2001-2003 in cities and towns outside metro areas. Fremont ranked 37th as businesses continue to invest in real and personal property expansions.

The following are highlights of recent economic development projects.

**CITY OF FREMONT
SANDUSKY COUNTY**

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

Calpine Corporation began construction on the \$355,200,000 Fremont Energy Center in September 2001. The natural gas-fired electric generating facility will produce approximately 540 megawatts of electric power during normal operation with the ability to generate more than 700 megawatts during peak demand. The construction is scheduled for completion and start-up in early 2006.

Owens-Illinois Continental PET technologies opened in Fremont in 1998 with one blow mold machine and one injection machine. Today, the Company has seven blow mold machines and ten injection machines. In 2003 Continental PET Technologies invested over \$2,200,000 in new equipment.

Continuing with their capital improvement plan, Green Bay Packaging purchased new equipment in the amount of \$2,850,000. This purchase enabled the company to increase production and become more competitive in the corrugated box market.

In addition, Heinz USA continues to improve the world's largest ketchup plant. Heinz continues to be the largest employer in Fremont with over 700 employees. Just seven miles away, Whirlpool Corporation has the world's largest washing machine manufacturing plants and employs more than 3,000 workers.

In order to accommodate large water usage that will be needed by the Fremont Energy Center, an expanded City Water Treatment Plant will incorporate features selected by the City to ensure compliance with future federal and state drinking water regulations. This fifteen million-dollar project will bring the City's capacity to provide over fourteen million gallons of water a day. Calpine Corporation has generously contributed over twelve and a half million dollars for this expansion.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Fred W. Recktenwald, City Auditor, City of Fremont, 323 South Front Street, Fremont, Ohio 43420.

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**CITY OF FREMONT
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 11,962,368	\$ 10,907,701	\$ 22,870,069
Investments in segregated accounts	575,520	2,518,383	3,093,903
Receivables (net of allowances for uncollectibles):			
Income taxes	2,031,844	-	2,031,844
Property and other local taxes	928,991	-	928,991
Accounts	49,733	776,735	826,468
Loans	299,106	-	299,106
Due from other governments	1,141,663	-	1,141,663
Materials and supplies inventory	49,214	268,198	317,412
Deferred bond issuance costs	-	509,308	509,308
Internal balance	(49)	49	-
Restricted assets:			
Equity in pooled cash and cash equivalents	-	53,010	53,010
Capital assets:			
Land and construction-in-progress	950,077	3,145,201	4,095,278
Depreciable capital assets, net	22,007,568	25,642,519	47,650,087
<i>Total capital assets</i>	<u>22,957,645</u>	<u>28,787,720</u>	<u>51,745,365</u>
<i>Total assets</i>	<u>39,996,035</u>	<u>43,821,104</u>	<u>83,817,139</u>
Liabilities:			
Accounts payable	203,862	115,246	319,108
Accrued wages and benefits	363,436	166,374	529,810
Pension obligation payable	230,629	46,666	277,295
Due to claimants	3,662	-	3,662
Accrued interest payable	18,607	153,816	172,423
Deferred revenue	878,826	-	878,826
Payable from restricted assets:			
Refundable deposits	-	53,010	53,010
Long-term liabilities:			
Due within one year	247,605	727,134	974,739
Due in more than one year	5,379,067	12,001,738	17,380,805
<i>Total liabilities</i>	<u>7,325,694</u>	<u>13,263,984</u>	<u>20,589,678</u>
Net assets:			
Invested in capital assets, net of related debt	18,842,645	18,926,736	37,769,381
Restricted for:			
Capital projects		2,530,000	2,530,000
Debt service	92,685	-	92,685
Transportation projects	1,257,256	-	1,257,256
Other purposes	991,625	-	991,625
Unrestricted	<u>11,486,130</u>	<u>9,100,384</u>	<u>20,586,514</u>
<i>Total net assets</i>	<u>\$ 32,670,341</u>	<u>\$ 30,557,120</u>	<u>\$ 63,227,461</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Expenses</u>
Governmental Activities:	
General government	\$ 1,673,224
Security of persons and property	5,016,845
Public health and welfare	16,598
Transportation	1,059,161
Community environment	248,194
Leisure time activity	1,626,569
Economic development	330,910
Other	13,249
Interest and fiscal charges	233,549
	<hr/>
<i>Total governmental activities</i>	10,218,299
	<hr/>
Business-type Activities:	
Water	4,439,376
Sewer	3,243,573
	<hr/>
<i>Total business-type activities</i>	7,682,949
	<hr/>
<i>Total primary government</i>	\$ 17,901,248
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$ 83,019	\$ -	\$ -	\$ (1,590,205)	\$ -	\$ (1,590,205)
398,018	28,762	-	(4,590,065)	-	(4,590,065)
-	-	-	(16,598)	-	(16,598)
44,346	828,807	92,281	(93,727)	-	(93,727)
11,564	107,715	-	(128,915)	-	(128,915)
468,849	-	-	(1,157,720)	-	(1,157,720)
-	261,298	-	(69,612)	-	(69,612)
-	-	-	(13,249)	-	(13,249)
-	-	-	(233,549)	-	(233,549)
<u>1,005,796</u>	<u>1,226,582</u>	<u>92,281</u>	<u>(7,893,640)</u>	<u>-</u>	<u>(7,893,640)</u>
3,314,017	-	6,750,000	-	5,624,641	5,624,641
3,593,656	-	-	-	350,083	350,083
<u>6,907,673</u>	<u>-</u>	<u>6,750,000</u>	<u>-</u>	<u>5,974,724</u>	<u>5,974,724</u>
<u>\$ 7,913,469</u>	<u>\$ 1,226,582</u>	<u>\$ 6,842,281</u>	<u>(7,893,640)</u>	<u>5,974,724</u>	<u>(1,918,916)</u>
General Revenues:					
Income taxes levied for:					
Special purposes			7,398,224	-	7,398,224
Property taxes levied for:					
General purposes			741,612	-	741,612
Special purposes			160,082	-	160,082
Grants and entitlements not restricted to specific programs					
			1,160,653	-	1,160,653
Investment earnings					
			168,913	21,879	190,792
Miscellaneous					
			174,144	312,385	486,529
<i>Total general revenues</i>			<u>9,803,628</u>	<u>334,264</u>	<u>10,137,892</u>
Change in net assets			1,909,988	6,308,988	8,218,976
<i>Net assets at beginning of year (restated)</i>			<u>30,760,353</u>	<u>24,248,132</u>	<u>55,008,485</u>
<i>Net assets at end of year</i>			<u>\$ 32,670,341</u>	<u>\$ 30,557,120</u>	<u>\$ 63,227,461</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003**

	<u>General</u>	<u>Municipal Income Tax</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 2,904,615	\$ 3,200,620	\$ 2,682,801	\$ 3,156,325	\$11,944,361
Investments in segregated accounts	-	-	-	575,520	575,520
Receivables (net of allowance for uncollectibles):					
Income taxes	-	2,031,844	-	-	2,031,844
Property and other local taxes	754,805	-	-	174,186	928,991
Accounts	38,420	-	-	11,313	49,733
Loans	-	-	-	299,106	299,106
Due from other governments	571,272	-	-	570,391	1,141,663
Materials and supplies inventory	-	-	-	49,214	49,214
<i>Total assets</i>	<u>\$ 4,269,112</u>	<u>\$ 5,232,464</u>	<u>\$ 2,682,801</u>	<u>\$ 4,836,055</u>	<u>\$17,020,432</u>
Liabilities:					
Accounts payable	\$ 39,908	\$ 1,181	\$ 96,697	\$ 65,264	\$ 203,050
Accrued wages and benefits	303,116	8,762	-	48,343	360,221
Pension obligation payable	213,180	2,487	-	14,085	229,752
Due to claimants	3,662	-	-	-	3,662
Deferred revenue	1,139,914	566,854	-	645,099	2,351,867
<i>Total liabilities</i>	<u>1,699,780</u>	<u>579,284</u>	<u>96,697</u>	<u>772,791</u>	<u>3,148,552</u>
Fund balances:					
Reserved for encumbrances	20,461	375	159,335	413,556	593,727
Reserved for materials and supplies inventory	-	-	-	49,214	49,214
Reserved for loans	-	-	-	299,106	299,106
Reserved for unclaimed monies	2,700	-	-	-	2,700
Unreserved:					
Designated for workers compensation	342,673	-	-	-	342,673
Undesignated, reported in:					
General fund	2,203,498	-	-	-	2,203,498
Special revenue funds	-	4,652,805	-	2,954,508	7,607,313
Debt service funds	-	-	-	108,353	108,353
Capital projects funds	-	-	2,426,769	238,527	2,665,296
<i>Total fund balances</i>	<u>2,569,332</u>	<u>4,653,180</u>	<u>2,586,104</u>	<u>4,063,264</u>	<u>13,871,880</u>
<i>Total liabilities and fund balances</i>	<u>\$ 4,269,112</u>	<u>\$ 5,232,464</u>	<u>\$ 2,682,801</u>	<u>\$ 4,836,055</u>	<u>\$17,020,432</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

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

Total governmental fund balances \$ 13,871,880

*Amounts reported for governmental activities
on the statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 22,957,645

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Income tax	\$ 566,854
Property and other local taxes	50,165
Intergovernmental	<u>856,022</u>

Total 1,473,041

An internal service fund is used by management to charge the costs of internal equipment service to individual funds. The assets and liabilities of the internal service fund is included in governmental activities on the statement of net assets. The net assets of the internal service fund, including an internal balance of \$49, are:

13,054

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:

General obligation bonds	(4,115,000)
Ohio Police and Fire	(846,784)
Compensated absences	(664,888)
Accrued interest	<u>(18,607)</u>

Total (5,645,279)

Net assets of governmental activities \$ 32,670,341

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	General	Municipal Income Tax	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
Income taxes	\$ -	\$ 7,237,731	\$ -	\$ -	\$ 7,237,731
Property and other local taxes	743,977	-	-	160,628	904,605
Charges for services	45,429	135	-	471,349	516,913
Licenses, permits and fees	11,564	-	-	-	11,564
Fines and forfeitures	390,770	-	-	44,703	435,473
Intergovernmental	1,108,314	-	15,970	1,113,906	2,238,190
Special assessments	-	-	41,846	-	41,846
Investment income	148,555	-	5,327	15,031	168,913
Other	123,460	-	5,612	45,072	174,144
<i>Total revenues</i>	<u>2,572,069</u>	<u>7,237,866</u>	<u>68,755</u>	<u>1,850,689</u>	<u>11,729,379</u>
Expenditures:					
Current:					
General government	1,332,571	318,303	-	28,563	1,679,437
Security of persons and property	4,154,288	-	-	635,262	4,789,550
Public health and welfare	16,598	-	-	-	16,598
Transportation	-	-	17,470	717,532	735,002
Community environment	111,921	-	-	133,319	245,240
Leisure time activity	695,079	-	-	902,965	1,598,044
Economic development and assistance	90,369	-	-	247,061	337,430
Other	11,622	-	-	1,627	13,249
Capital outlay	-	-	1,517,725	272,751	1,790,476
Debt service:					
Principal retirement	-	-	-	187,663	187,663
Interest and fiscal charges	-	-	-	234,190	234,190
<i>Total expenditures</i>	<u>6,412,448</u>	<u>318,303</u>	<u>1,535,195</u>	<u>3,360,933</u>	<u>11,626,879</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(3,840,379)</u>	<u>6,919,563</u>	<u>(1,466,440)</u>	<u>(1,510,244)</u>	<u>102,500</u>
Other financing sources (uses):					
Transfers in	4,100,000	-	1,900,000	1,411,481	7,411,481
Transfers out	(501,481)	(6,910,000)	-	-	(7,411,481)
Proceeds from sale of capital assets	12,992	-	-	611	13,603
<i>Total other financing sources (uses)</i>	<u>3,611,511</u>	<u>(6,910,000)</u>	<u>1,900,000</u>	<u>1,412,092</u>	<u>13,603</u>
<i>Net change in fund balances</i>	<u>(228,868)</u>	<u>9,563</u>	<u>433,560</u>	<u>(98,152)</u>	<u>116,103</u>
<i>Fund balances at beginning of year (restated)</i>	<u>2,798,200</u>	<u>4,643,617</u>	<u>2,152,544</u>	<u>4,161,416</u>	<u>13,755,777</u>
<i>Fund balances at end of year</i>	<u>\$ 2,569,332</u>	<u>\$ 4,653,180</u>	<u>\$ 2,586,104</u>	<u>\$ 4,063,264</u>	<u>\$ 13,871,880</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

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

Net change in fund balances - total governmental funds	\$ 116,103
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,603,613) exceeded depreciation expense (\$1,325,150) in the current period.	1,278,463
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(40,174)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	398,908
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	187,663
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	641
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(32,117)
The internal service fund used by management to charge the costs of internal equipment service to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including an internal balance of \$49, is allocated among the governmental activities.	501
<i>Change in net assets of governmental activities</i>	<u><u>\$ 1,909,988</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and other local taxes	\$ 729,500	\$ 729,500	\$ 743,977	\$ 14,477
Charges for services	27,425	27,425	51,518	24,093
Licenses, permits and fees	11,450	11,450	11,564	114
Fines and forfeitures	345,000	345,000	386,107	41,107
Intergovernmental	970,392	970,392	1,111,827	141,435
Investment income	325,000	325,000	155,559	(169,441)
Other	117,000	117,000	123,562	6,562
<i>Total revenues</i>	<u>2,525,767</u>	<u>2,525,767</u>	<u>2,584,114</u>	<u>58,347</u>
Expenditures:				
Current:				
General government	1,506,860	1,506,860	1,352,438	154,422
Security of persons and property	4,257,500	4,317,500	4,146,972	170,528
Public health and welfare	26,200	26,200	16,618	9,582
Community environment	127,145	127,145	114,217	12,928
Leisure time activity	707,550	718,550	699,638	18,912
Economic development and assistance	97,875	97,875	91,392	6,483
Other	28,000	28,000	11,622	16,378
<i>Total expenditures</i>	<u>6,751,130</u>	<u>6,822,130</u>	<u>6,432,897</u>	<u>389,233</u>
<i>Excess of expenditures over revenues</i>	<u>(4,225,363)</u>	<u>(4,296,363)</u>	<u>(3,848,783)</u>	<u>447,580</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	8,000	8,000	12,992	4,992
Transfers in	4,100,000	4,100,000	4,100,000	-
Transfers out	(501,800)	(501,800)	(501,481)	319
<i>Total other financing sources (uses)</i>	<u>3,606,200</u>	<u>3,606,200</u>	<u>3,611,511</u>	<u>5,311</u>
<i>Net change in fund balance</i>	<u>(619,163)</u>	<u>(690,163)</u>	<u>(237,272)</u>	<u>452,891</u>
<i>Fund balance at beginning of year (restated)</i>	3,036,036	3,036,036	3,036,036	-
Prior year encumbrances appropriated	53,413	53,413	53,413	-
<i>Fund balance at end of year</i>	<u>\$ 2,470,286</u>	<u>\$ 2,399,286</u>	<u>\$ 2,852,177</u>	<u>\$ 452,891</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 7,065,350	\$ 7,065,350	\$ 7,315,473	\$ 250,123
Charges for services	200	200	135	(65)
<i>Total revenues</i>	<u>7,065,550</u>	<u>7,065,550</u>	<u>7,315,608</u>	<u>250,058</u>
Expenditures:				
Current:				
General government	385,460	385,460	320,238	65,222
<i>Total expenditures</i>	<u>385,460</u>	<u>385,460</u>	<u>320,238</u>	<u>65,222</u>
<i>Excess of revenues over expenditures</i>	<u>6,680,090</u>	<u>6,680,090</u>	<u>6,995,370</u>	<u>315,280</u>
Other financing sources (uses):				
Transfers out	(6,910,000)	(6,910,000)	(6,910,000)	-
<i>Total other financing sources (uses)</i>	<u>(6,910,000)</u>	<u>(6,910,000)</u>	<u>(6,910,000)</u>	<u>-</u>
<i>Net change in fund balance</i>	(229,910)	(229,910)	85,370	315,280
<i>Fund balance at beginning of year</i>	3,111,104	3,111,104	3,111,104	-
<i>Prior year encumbrances appropriated</i>	<u>2,590</u>	<u>2,590</u>	<u>2,590</u>	<u>-</u>
<i>Fund balance at end of year</i>	<u>\$ 2,883,784</u>	<u>\$ 2,883,784</u>	<u>\$ 3,199,064</u>	<u>\$ 315,280</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003**

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 8,844,850	\$ 2,062,851	\$ 10,907,701	\$ 18,007
Investments in segregated accounts	2,518,383	-	2,518,383	-
Receivables (net of allowance for uncollectibles):				
Accounts	436,476	340,259	776,735	-
Materials and supplies inventory	213,016	55,182	268,198	-
Noncurrent assets:				
Restricted assets:				
Equity in pooled cash and cash equivalents	53,010	-	53,010	-
Deferred bond issuance costs	418,662	90,646	509,308	-
Capital assets:				
Land and construction-in-progress	2,646,073	499,128	3,145,201	-
Depreciable capital assets, net	16,505,242	9,137,277	25,642,519	-
<i>Total capital assets</i>	<u>19,151,315</u>	<u>9,636,405</u>	<u>28,787,720</u>	<u>-</u>
<i>Total assets</i>	<u>31,635,712</u>	<u>12,185,343</u>	<u>43,821,055</u>	<u>18,007</u>
Liabilities:				
Current liabilities:				
Accounts payable	50,221	65,025	115,246	812
Accrued wages and benefits	76,730	89,644	166,374	3,215
Pension obligation payable	21,789	24,877	46,666	877
Accrued interest payable	142,287	11,529	153,816	-
Payable from restricted assets:				
Refundable deposits	53,010	-	53,010	-
Long-term liabilities:				
Compensated absences	154,543	183,345	337,888	-
General obligation bonds payable	10,590,000	1,615,000	12,205,000	-
OPWC loans payable	-	185,984	185,984	-
<i>Total liabilities</i>	<u>11,088,580</u>	<u>2,175,404</u>	<u>13,263,984</u>	<u>4,904</u>
Net assets:				
Invested in capital assets, net of related debt	11,091,315	7,835,421	18,926,736	-
Restricted for capital projects	2,530,000	-	2,530,000	-
Unrestricted	6,925,817	2,174,518	9,100,335	13,103
<i>Total net assets</i>	<u>\$ 20,547,132</u>	<u>\$ 10,009,939</u>	<u>30,557,071</u>	<u>\$ 13,103</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			<u>49</u>	
<i>Net assets of business-type activities</i>			<u>\$ 30,557,120</u>	

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Operating revenues:				
Charges for services	\$ 3,302,037	\$ 3,593,656	\$ 6,895,693	\$ 68,677
Tap-in fees	11,980	-	11,980	-
Other	282,649	29,736	312,385	-
<i>Total operating revenues</i>	<u>3,596,666</u>	<u>3,623,392</u>	<u>7,220,058</u>	<u>68,677</u>
Operating expenses:				
Personal services	1,386,078	1,586,740	2,972,818	53,127
Contractual services	443,208	324,041	767,249	3,391
Materials and supplies	541,327	261,353	802,680	5,205
Utilities expense	165,256	314,494	479,750	5,585
Depreciation	691,620	550,642	1,242,262	-
Other	42,239	50,476	92,715	819
<i>Total operating expenses</i>	<u>3,269,728</u>	<u>3,087,746</u>	<u>6,357,474</u>	<u>68,127</u>
<i>Operating income</i>	<u>326,938</u>	<u>535,646</u>	<u>862,584</u>	<u>550</u>
Nonoperating revenues (expenses):				
Interest revenue	16,073	5,806	21,879	-
Interest and fiscal charges	(1,169,694)	(155,830)	(1,325,524)	-
<i>Total nonoperating revenues (expenses)</i>	<u>(1,153,621)</u>	<u>(150,024)</u>	<u>(1,303,645)</u>	<u>-</u>
<i>Net income (loss) before capital contributions</i>	<u>(826,683)</u>	<u>385,622</u>	<u>(441,061)</u>	<u>550</u>
<i>Capital contributions</i>	<u>6,750,000</u>	<u>-</u>	<u>6,750,000</u>	<u>-</u>
<i>Changes in net assets</i>	<u>5,923,317</u>	<u>385,622</u>	<u>6,308,939</u>	<u>550</u>
<i>Net assets at beginning of year (restated)</i>	<u>14,623,815</u>	<u>9,624,317</u>		<u>12,553</u>
<i>Net assets at end of year</i>	<u>\$ 20,547,132</u>	<u>\$ 10,009,939</u>		<u>\$ 13,103</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			49	
<i>Change in net assets of business-type activities</i>			<u>\$ 6,308,988</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Cash flows from operating activities:				
Cash received from charges for services	\$ 3,304,270	\$ 3,570,942	\$ 6,875,212	\$ 68,677
Cash received from tap-in fees	11,980	-	11,980	-
Cash received from other operations	298,844	29,736	328,580	-
Cash payments for personal services	(1,394,015)	(1,603,100)	(2,997,115)	(53,342)
Cash payments for contractual services	(430,905)	(331,036)	(761,941)	(3,391)
Cash payments for materials and supplies	(532,408)	(260,709)	(793,117)	(4,868)
Cash payments for utilities expense	(170,009)	(307,507)	(477,516)	(5,585)
Cash payments for other expenses	(58,360)	(50,476)	(108,836)	(819)
<i>Net cash provided by operating activities</i>	<u>1,029,397</u>	<u>1,047,850</u>	<u>2,077,247</u>	<u>672</u>
Cash flows from capital and related financing activities:				
Cash payments for the acquisition of capital assets	(592,626)	(434,080)	(1,026,706)	-
Cash received from capital contributions	6,750,000	-	6,750,000	-
Cash received from proceeds of the sale of capital assets	281	-	281	-
Cash received from proceeds of bonds	10,590,000	1,615,000	12,205,000	-
Cash payments for principal retirement	(7,675,000)	(1,880,333)	(9,555,333)	-
Cash payments for interest and fiscal charges	(1,263,190)	(164,910)	(1,428,100)	-
<i>Net cash provided by (used in) capital and related financing activities</i>	<u>7,809,465</u>	<u>(864,323)</u>	<u>6,945,142</u>	<u>-</u>
Cash flows from investing activities:				
Cash received from interest earned	16,073	5,806	21,879	-
<i>Net cash provided by investing activities</i>	<u>16,073</u>	<u>5,806</u>	<u>21,879</u>	<u>-</u>
<i>Net increase in cash and cash equivalents</i>	8,854,935	189,333	9,044,268	672
<i>Cash and cash equivalents at beginning of year</i>	<u>2,561,308</u>	<u>1,873,518</u>	<u>4,434,826</u>	<u>17,335</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 11,416,243</u>	<u>\$ 2,062,851</u>	<u>\$ 13,479,094</u>	<u>\$ 18,007</u>

(Continued)

**CITY OF FREMONT
SANDUSKY COUNTY**

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

	Business-type Activities - Enterprise Funds			Governmental Activities -
	Water	Sewer	Total	Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 326,938	\$ 535,646	\$ 862,584	\$ 550
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	691,620	550,642	1,242,262	-
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	2,278	(22,714)	(20,436)	-
(Increase) decrease in materials and supplies inventory	790	(2,493)	(1,703)	-
Increase in accounts payable	16,107	3,948	20,055	337
Increase in accrued wages and benefits	8,530	11,718	20,248	512
Increase (decrease) in compensated absences payable	1,429	(7,341)	(5,912)	-
Decrease in pension obligation payable	(18,324)	(21,556)	(39,880)	(727)
Increase in refundable deposits liability	29	-	29	-
Net cash provided by operating activities	\$ 1,029,397	\$ 1,047,850	\$ 2,077,247	\$ 672

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2003

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 76,773
Cash in segregated accounts	6,600
Receivables:	
Accounts	<u>2,708</u>
<i>Total assets</i>	<u><u>\$ 86,081</u></u>
Liabilities:	
Due to other governments	\$ 76,773
Deposits held and due to others	<u>9,308</u>
<i>Total liabilities</i>	<u><u>\$ 86,081</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

1. DESCRIPTION OF THE CITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The City's reporting entity has been defined according to GASB Statement No. 14, "The Financial Reporting Entity".

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to influence significantly the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component

**CITY OF FREMONT
SANDUSKY COUNTY**

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

units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. Based upon these criteria, the City has no component units, but is a member of an insurance pool described in Note 13.

B. Basis of Presentation - Fund Accounting

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

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

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

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

column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Municipal Income Tax Fund - The municipal income tax fund accounts for monies derived from the 1.5 percent municipal income tax.

Capital Improvement Fund - The capital improvement fund accounts for monies which will be used for capital improvements to the City.

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

PROPRIETARY FUNDS

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

**CITY OF FREMONT
SANDUSKY COUNTY**

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

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

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

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

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

FIDUCIARY FUNDS

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

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and

**CITY OF FREMONT
SANDUSKY COUNTY**

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

other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and

**CITY OF FREMONT
SANDUSKY COUNTY**

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

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.

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

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

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

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

On governmental fund financial statements, receivables that 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

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

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

F. Budgetary Process

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

Estimated Resources - The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing 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 the actual unencumbered fund balances from the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines that revenue to be collected will be greater than or less than prior estimates and the County Budget Commission find the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the first and final amended official certificate of estimated resources issued during 2003.

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

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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. The amounts set forth in the financial statements represent the original and final appropriations approved by City Council during 2003.

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 appropriation. Encumbered appropriations are carried forward to the succeeding year and are not reappropriated.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent year expenditures for governmental fund types.

G. Cash and Investments

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

Cash and cash equivalents that are held separately for the City in segregated accounts and not held with the City Treasurer are recorded on the basic financial statements as "Cash in Segregated Accounts".

During fiscal year 2003, investments were limited to STAR Ohio, U.S. Treasury notes and nonnegotiable certificates of deposit.

Investments are reported at fair value, except for non-negotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner

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consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2003.

Interest earnings are allocated to City funds according to state statutes, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2003 was \$148,555, which includes \$121,790 assigned from other City funds.

For purposes of the statement of cash flows and for presentation on the basic financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months, and not purchased from the pool, are reported as investments.

H. Loans Receivable

Loans receivable represent the right to receive repayment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients.

I. Inventories of Materials and Supplies

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

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

J. Capital Assets

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

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All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. The City's governmental infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers and streets. The City's proprietary and business-type infrastructure consists of water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary capital assets is also capitalized. There was no interest capitalized during fiscal 2003.

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

<u>Asset Category</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	15-45 years	15-45 years
Buildings	50 years	50 years
Building improvements	5-25 years	5-25 years
Machinery and equipment	5-10 years	5-10 years
Infrastructure – Streets, Sidewalks, Storm Sewers	25 years	65 years
Infrastructure – Bridges and Culverts	50 Years	

K. 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 the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

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by those employees expected to become eligible to receive termination benefits in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's union contracts or administrative ordinance. The City records a liability for accumulated unused sick leave for all employees with 10 or more years of services with the City up to a maximum of 500 hours.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. There were no transfers between governmental and business-type activities during 2003.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one

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fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the BFS. Interfund activity between governmental funds is eliminated for reporting on the governmental statement of activities.

N. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for encumbrances, materials and supplies inventory, loans, and unclaimed monies in the governmental fund financial statements. The City also reports designated fund balance for Workers' Compensation.

O. Restricted Assets

Customer deposits are 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, 2003 are comprised of the following:

	Cash and Cash Equivalents
Customer Deposits	<u>\$ 53,010</u>

P. Unamortized Bond Issuance Costs

Bond issuance costs for governmental and business-type activities are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Bond issuance costs are recorded as deferred charges, which is included in noncurrent assets on the proprietary funds statement of net assets.

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Q. Estimates

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

R. Contributions of Capital

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

S. Net Assets

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

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

3. ACCOUNTABILITY AND COMPLIANCE

Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the City has implemented GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local*

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Governments", GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*", GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*", GASB Statement No. 41, "*Budgetary Comparison Schedule - Perspective Differences*", and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*". At December 31, 2002, there was no effect on fund balance as a result of the implementation of GASB Statement Nos. 37, 38 and 41, and there was no effect on fund balance as a result of the implementation of GASB Interpretation No. 6.

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

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

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

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

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

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the standards of GASB No. 34. The balance of loans receivable has also

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been restated at December 31, 2002 to properly reflect the balances outstanding. These adjustments had the following effect on fund balances as previously reported at December 31, 2002.

	General	Municipal Income Tax	Capital Improvement	Other Governmental Funds	Total
Fund balance					
December 31, 2002	\$ 2,797,007	\$ 4,643,617	\$ 2,152,544	\$ 3,316,382	\$ 12,909,550
Fund reclassifications	1,193	-	-	845,034	846,227
Restated fund balance					
December 31, 2002	<u>\$ 2,798,200</u>	<u>\$ 4,643,617</u>	<u>\$ 2,152,544</u>	<u>\$ 4,161,416</u>	<u>\$ 13,755,777</u>

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

Restated fund balance	
December 31, 2002	\$ 13,755,777
GASB Statement No. 34 adjustments:	
Capital assets	21,719,356
Internal service fund	12,553
Long-term liabilities	(5,782,218)
Accrued interest	(19,248)
Long-term (deferred) assets	<u>1,074,133</u>
Governmental activities net assets, January 1, 2003	<u>\$ 30,760,353</u>

Budgetary Statement - General Fund - The beginning fund balance as reported on Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund has been restated from \$3,031,181 to \$3,036,036 to properly reflect all funds included in the City's general fund under GASB Statement No. 34.

Business-type Activities - Restatement of Fund Equity - The enterprise funds have been restated to report capital assets in accordance with the City's new capitalization threshold of \$2,500, to reclassify certain assets from governmental activities to business-type activities, and to correct errors of prior periods (see Note 10.A.).

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	Water	Sewer	Total
Fund equity at December 31, 2002	\$ 14,420,543	\$ 9,172,828	\$ 23,593,371
Restatement of capital assets	203,272	451,489	654,761
Restated fund equity at December 31, 2002	\$ 14,623,815	\$ 9,624,317	\$ 24,248,132

4. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

Interim deposits are deposits in interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage,

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

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*".

Cash on Hand: At year-end, the City had \$200 in undeposited cash on hand which is included on the combined balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents", but is not considered part of the City's carrying amount of deposits at year-end.

Deposits: At year-end, the carrying amount of the City's deposits was \$15,596,411 and the bank balance was \$15,923,319. Of the bank balance:

1. \$328,868 was covered by federal depository insurance; and
2. \$15,594,451 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments: The City's investments are 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 for which the securities are held by the City or the City's 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.

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	Category 2	Fair Value
U.S. Treasury notes	\$ 2,000,139	\$ 2,000,139
	\$ 2,000,139	
Investment in STAR Ohio		8,503,605
Total Investments		\$ 10,503,744

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, *“Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”*. A reconciliation between the classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 26,100,355	\$ -
Investments of the cash management pool:		
U.S. Treasury notes	(2,000,139)	2,000,139
Investment in STAR Ohio	(8,503,605)	8,503,605
Cash on hand	(200)	-
GASB Statement No. 3	\$ 15,596,411	\$ 10,503,744

5. INTERFUND TRANSFERS

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

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Transfers from general fund to:	
Nonmajor governmental funds	\$ 501,481
Transfers from municipal income tax fund to:	
General fund	4,100,000
Capital improvement fund	1,900,000
Nonmajor governmental funds	<u>910,000</u>
Total transfers between governmental funds	<u>\$ 7,411,481</u>

All transfers were legal and in compliance with Ohio Revised Code. Transfers between governmental funds are eliminated for reporting in the governmental statement of activities.

6. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property tax revenues received in 2003 represent the collection of 2002 taxes. For 2003, real property taxes were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. These taxes will be collected in and are intended to finance 2004 operations. Assessed values for real property taxes are established by state statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1999. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes were levied after October 1, 2002, on the assessed values as of December 31, 2001, the lien date. Public utility real property is assessed at 35 percent of true value. Public utility tangible personal property currently is assessed at 88 percent of true value for taxable transmission and distribution property and 25 percent of true value for all other taxable property. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2002 taxes. For 2003, tangible personal property taxes were levied after October 1, 2002, on the true value as of December 31, 2002. These taxes will be collected in and are intended to finance 2003 operations. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or

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semiannually. 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 within the County, including the City of Fremont. The County Auditor periodically remits to the City its portion of the taxes collected.

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

The full tax rate for all City operations for the year ended December 31, 2003, was \$3.20 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2003 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real property	\$ 221,326,410
Public utility	9,975,310
Tangible personal property	<u>69,666,150</u>
Total assessed value	<u><u>\$ 300,967,870</u></u>

7. LOCAL INCOME TAX

The City levies and collects an income tax of 1.5 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax receipts are credited to the Municipal Income Tax Fund, and amounted to \$7,237,731 in 2003.

8. RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), loans, and intergovernmental receivables arising from grants, entitlements, and

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shared revenue. All intergovernmental receivables have been classified as "Due from Other Governments" on the BFS. Receivables have been recorded to the extent that they are measurable and available at December 31, 2003, as well as intended to finance fiscal 2003 operations.

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

Governmental Activities:

Income taxes	\$ 2,031,844
Property and other local taxes	928,991
Accounts	49,733
Loans	299,106
Due from other governments	1,141,663

Business-type Activities:

Accounts	\$ 776,735
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the loans receivable.

9. 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 2003, there were loans to four businesses with a total principal balance of \$299,106.

10. CAPITAL ASSETS

A. The capital asset balances of the governmental activities and business-type activities have been restated due to an increase in the capitalization threshold from \$500 to \$2,500, the reporting of infrastructure in governmental capital assets, the correction of errors of prior periods, and the reclassification of certain assets from governmental activities to business-type activities.

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	Balance 12/31/02	Restatements	Restated Balance 12/31/02
Governmental Activities:			
Land	\$ 732,209	\$ -	\$ 732,209
Land improvements	1,191,447	425,254	1,616,701
Buildings and improvements	9,968,097	(975,901)	8,992,196
Equipment	4,989,731	(1,135,448)	3,854,283
Infrastructure	-	15,251,295	15,251,295
Construction in progress	1,475,968	(50,389)	1,425,579
Less: accumulated depreciation	<u>(5,838,649)</u>	<u>(4,314,258)</u>	<u>(10,152,907)</u>
Total	<u>\$ 12,518,803</u>	<u>\$ 9,200,553</u>	<u>\$ 21,719,356</u>
Business-type Activities:			
Land	\$ 899,291	\$ -	\$ 899,291
Land improvements	454,524	(241,240)	213,284
Buildings and improvements	17,766,177	4,982,152	22,748,329
Equipment	10,597,291	(4,518,666)	6,078,625
Infrastructure	10,657,119	390,807	11,047,926
Construction in progress	4,087,252	50,391	4,137,643
Less: accumulated depreciation	<u>(16,112,858)</u>	<u>(8,683)</u>	<u>(16,121,541)</u>
Total	<u>\$ 28,348,796</u>	<u>\$ 654,761</u>	<u>\$ 29,003,557</u>

The restatements consist of the following:

	At Cost	Accumulated Depreciation	Net of Depreciation
Governmental Activities:			
Addition of Infrastructure	\$ 14,884,140	\$ (5,493,515)	\$ 9,390,625
Prior Period Errors	-	433,103	433,103
Reclassification of Assets	(735,327)	341,286	(394,041)
Change in Capitalization Threshold	<u>(634,002)</u>	<u>404,868</u>	<u>(229,134)</u>
Total Governmental Activities	<u>\$ 13,514,811</u>	<u>\$ (4,314,258)</u>	<u>\$ 9,200,553</u>

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	At Cost	Accumulated Depreciation	Net of Depreciation
Business Activities:			
Prior Period Errors	\$ 338,818	\$ 27,791	\$ 366,609
Reclassification of Assets	735,327	(341,286)	394,041
Change in Capitalization Threshold	(410,701)	304,812	(105,889)
Total Business Activities	<u>\$ 663,444</u>	<u>\$ (8,683)</u>	<u>\$ 654,761</u>

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

	Restated Balance 12/31/02	Additions	Disposals	Balance 12/31/03
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 732,209	\$ 66,500	\$ -	\$ 798,709
Construction in progress	1,425,579	683,944	(1,958,155)	151,368
<i>Total capital assets, not being depreciated</i>	<u>2,157,788</u>	<u>750,444</u>	<u>(1,958,155)</u>	<u>950,077</u>
Capital assets, being depreciated:				
Land improvements	1,616,701	559,843	-	2,176,544
Buildings and improvements	8,992,196	1,629,575	(41,055)	10,580,716
Machinery and equipment	3,854,283	300,057	(185,601)	3,968,739
Infrastructure	15,251,295	1,321,849	-	16,573,144
<i>Total capital assets, being depreciated</i>	<u>29,714,475</u>	<u>3,811,324</u>	<u>(226,656)</u>	<u>33,299,143</u>
Less: accumulated depreciation:				
Land improvements	(228,880)	(68,339)	-	(297,219)
Buildings and improvements	(2,002,656)	(275,134)	35,665	(2,242,125)
Machinery and equipment	(2,235,143)	(313,733)	150,817	(2,398,059)
Infrastructure	(5,686,228)	(667,944)	-	(6,354,172)
<i>Total accumulated depreciation</i>	<u>(10,152,907)</u>	<u>(1,325,150)</u>	<u>186,482</u>	<u>(11,291,575)</u>
<i>Total capital assets, being depreciated, net</i>	<u>19,561,568</u>	<u>2,486,174</u>	<u>(40,174)</u>	<u>22,007,568</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 21,719,356</u>	<u>\$ 3,236,618</u>	<u>\$(1,998,329)</u>	<u>\$ 22,957,645</u>

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	Restated Balance 12/31/02	Additions	Disposals	Balance 12/31/03
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 899,291	\$ -	\$ -	\$ 899,291
Construction in progress	4,137,643	641,404	(2,533,137)	2,245,910
<i>Total capital assets, not being depreciated</i>	<u>5,036,934</u>	<u>641,404</u>	<u>(2,533,137)</u>	<u>3,145,201</u>
Capital assets, being depreciated:				
Land improvements	213,284	48,296	-	261,580
Buildings and improvements	22,748,329	226,912	-	22,975,241
Machinery and equipment	6,078,625	145,644	(55,306)	6,168,963
Infrastructure	11,047,926	2,499,580	-	13,547,506
<i>Total capital assets, being depreciated</i>	<u>40,088,164</u>	<u>2,920,432</u>	<u>(55,306)</u>	<u>42,953,290</u>
Less: accumulated depreciation:				
Land improvements	(72,973)	(6,777)	-	(79,750)
Buildings and improvements	(8,241,089)	(628,622)	-	(8,869,711)
Machinery and equipment	(3,797,922)	(344,285)	53,032	(4,089,175)
Infrastructure	(4,009,557)	(262,578)	-	(4,272,135)
<i>Total accumulated depreciation</i>	<u>(16,121,541)</u>	<u>(1,242,262)</u>	<u>53,032</u>	<u>(17,310,771)</u>
<i>Total capital assets, being depreciated, net</i>	<u>23,966,623</u>	<u>1,678,170</u>	<u>(2,274)</u>	<u>25,642,519</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 29,003,557</u>	<u>\$ 2,319,574</u>	<u>\$ (2,535,411)</u>	<u>\$ 28,787,720</u>

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

Governmental Activities:	
General government	\$ 59,727
Security of persons and property	174,779
Transportation	753,318
Leisure time activities	329,509
Economic development	7,817
Total depreciation expense - governmental activities	\$ 1,325,150

11. LONG-TERM OBLIGATIONS

A. The City's long term obligations at December 31, 2003 were as follows:

	Balance 12/31/02	Restatement 01/01/03	Restated Balance 01/01/03	Additions	Reductions	Balance 12/31/03	Amounts Due in One Year
Governmental Activities:							
<u>General Obligation Bonds</u>							
Community center - 1999 issue	\$ 4,290,000	\$ -	\$ 4,290,000	\$ -	\$ (175,000)	\$ 4,115,000	\$ 180,000
<u>Pension Liability</u>							
Police and fire pension	857,489	1,958	859,447	-	(12,663)	846,784	13,206
<u>Other Long-Term Obligations</u>							
Compensated absences	635,895	-	635,895	28,993	-	664,888	54,399
Total governmental obligations	\$ 5,783,384	\$ 1,958	\$ 5,785,342	\$ 28,993	\$ (187,663)	\$ 5,626,672	\$ 247,605

General Obligation Bonds

The general obligation bonds were issued in 1999 and carry an interest rate of 3.25-4.85 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the general fund. The general obligation bonds were issued for the construction of a community center.

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Business Type Activities	Balance 12/31/03	Additions	Reductions	Balance 12/31/03	Amounts Due in One Year
<u>General Obligation Bonds</u>					
Water - 1994 Issue	\$ 5,300,000	\$ -	\$ (5,300,000)	\$ -	\$ -
Sewer - 2003 Issue	1,870,000	-	(1,870,000)	-	-
Water - 2003 Issue	-	5,710,000	-	5,710,000	150,000
Sewer - 2003 Issue	-	2,530,000	-	2,530,000	70,000
Water - 2003 Issue	-	1,615,000	-	1,615,000	390,000
Water - 2003 Issue	-	2,350,000	-	2,350,000	60,000
<i>Total</i>	7,170,000	12,205,000	(7,170,000)	12,205,000	670,000
<u>Mortgage Revenue Bonds</u>					
Water - 1994 Issue	2,375,000	-	(2,375,000)	-	-
<u>OPWC Loans</u>					
Sewer - 2001 issue	196,317	-	(10,333)	185,984	10,332
<u>Other Long-Term Obligations</u>					
Compensated absences	343,800	-	(5,912)	337,888	46,802
<i>Total Business - Type Activities</i>	<u>\$ 10,085,117</u>	<u>\$ 12,205,000</u>	<u>\$ (9,561,245)</u>	<u>\$ 12,728,872</u>	<u>\$ 727,134</u>

General Obligation Bonds - Water - 1994 Issue

The general obligation bonds were originally issued in 1994 for \$6,130,000, were reissued in 2003 for \$5,710,000, and carry an interest rate of 2-5 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the water fund. The general obligation bonds were issued for improvements to the water plant and facilities. A portion of the proceeds of the bonds were used for the advance refunding of the 1994 general obligation bonds. These proceeds were used to purchase state and local government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The balance of the refunded bonds at December 31, 2003 is \$5,175,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

This refunding was undertaken to reduce the total debt service payments over the next 21 years by \$545,365, and resulted in an economic gain of \$459,156.

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General Obligation Bonds - Water - 2003 Issue

The general obligation bonds were issued in 2003 and carry an interest rate of 2-5 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the water fund. The general obligation bonds were issued for improvements to the water plant and facilities.

General Obligation Bonds - Sewer - 1993 Issue

The general obligation bonds were originally issued in 1993 for \$4,305,000, were reissued in 2003 for \$1,615,000, and carry an interest rate of 2-5 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the sewer fund. The general obligation bonds were issued for improvements to the sewer plant and facilities. A portion of the proceeds of the bonds were used for the advance refunding of the 1993 general obligation bonds. These proceeds were used to purchase state and local government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The balance of the refunded bonds at December 31, 2003 is \$1,535,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

This refunding was undertaken to reduce the total debt service payments over the next four years by \$423,999, and resulted in an economic gain of \$416,989.

Mortgage Revenue Bonds - Water - 1994 Issue

The mortgage revenue bonds were originally issued in 1994 for \$2,745,000, were reissued in 2003 for \$2,350,000, and carry an interest rate of 2-5 percent. The mortgage revenue bonds are special obligations of the City secured by a mortgage on all assets of the water fund. The mortgage revenue bonds are payable solely from the gross revenues of the water fund after a provision for reasonable operating and maintenance expenses. The bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for services to customers be in sufficient amounts to satisfy the obligations under the indenture agreements. A portion of the proceeds of the bonds were used for the advance refunding of the 1994 mortgage revenue bonds. These proceeds were used to purchase state and local government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The balance of the refunded bonds at December 31, 2003 is \$2,320,000, but is

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not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

This refunding was undertaken to reduce the total debt service payments over the next 21 years by \$584,960, and resulted in an economic gain of \$428,816.

OPWC Loans

The OPWC loan was granted from the Ohio Public Works Commission in 2001 and does not carry an interest rate. The OPWC loan is an obligation of the sewer fund, and the principal payments are paid from the sewer fund. The OPWC loan proceeds were used for improvements to the sewer plant and facilities.

- B.** Principal and interest requirements to retire the general obligation bonds, the mortgage revenue bonds, the OPWC loans, and the police and fire pension liability as of December 31, 2003 are as follows:

<u>Year</u>	<u>General Obligation Bonds - Community Center</u>			<u>Police and Fire Pension Liability</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 180,000	\$ 191,147	\$ 371,147	\$ 13,206	\$ 35,850	\$ 49,056
2005	190,000	184,128	374,128	13,774	35,282	49,056
2006	195,000	176,527	371,527	14,365	34,691	49,056
2007	205,000	168,630	373,630	14,982	34,074	49,056
2008	215,000	158,790	373,790	15,626	33,430	49,056
2009 - 2013	1,225,000	637,138	1,862,138	88,793	156,487	245,280
2014 - 2018	1,550,000	318,887	1,868,887	109,572	135,708	245,280
2019 - 2023	355,000	17,217	372,217	135,215	110,065	245,280
2024 - 2028	-	-	-	166,854	78,426	245,280
2029 - 2035	-	-	-	274,397	42,264	316,661
Total	<u>\$4,115,000</u>	<u>\$1,852,464</u>	<u>\$5,967,464</u>	<u>\$ 846,784</u>	<u>\$ 696,277</u>	<u>\$1,543,061</u>

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Year	<u>General Obligation Bonds - Water - 1994 Issue</u>			<u>General Obligation Bonds - Water - 2003 Issue</u>		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 150,000	\$ 286,823	\$ 436,823	\$ 70,000	\$ 125,008	\$ 195,008
2005	200,000	226,459	426,459	95,000	98,606	193,606
2006	200,000	222,459	422,459	95,000	96,706	191,706
2007	210,000	217,959	427,959	95,000	94,569	189,569
2008	215,000	213,234	428,234	100,000	92,431	192,431
2009 - 2013	1,165,000	954,269	2,119,269	555,000	409,356	964,356
2014 - 2018	1,410,000	706,048	2,116,048	675,000	290,456	965,456
2019 - 2023	1,755,000	367,710	2,122,710	845,000	127,971	972,971
2024	<u>405,000</u>	<u>20,250</u>	<u>425,250</u>	-	-	-
Total	<u>\$ 5,710,000</u>	<u>\$ 3,215,211</u>	<u>\$ 8,925,211</u>	<u>\$ 2,530,000</u>	<u>\$ 1,335,103</u>	<u>\$ 3,865,103</u>

Year	<u>General Obligation Bonds - Sewer - 1993 Issue</u>			<u>Mortgage Revenue Bonds - Water - 1994 Issue</u>		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 390,000	\$ 42,938	\$ 432,938	\$ 60,000	\$ 118,116	\$ 178,116
2005	405,000	26,550	431,550	80,000	93,292	173,292
2006	405,000	18,450	423,450	85,000	91,692	176,692
2007	415,000	9,337	424,337	85,000	89,780	174,780
2008	-	-	-	90,000	87,868	177,868
2009 - 2013	-	-	-	480,000	393,325	873,325
2014 - 2018	-	-	-	580,000	290,446	870,446
2019 - 2023	-	-	-	725,000	151,090	876,090
2024	<u>-</u>	<u>-</u>	<u>-</u>	<u>165,000</u>	<u>8,250</u>	<u>173,250</u>
Total	<u>\$ 1,615,000</u>	<u>\$ 97,275</u>	<u>\$ 1,712,275</u>	<u>\$ 2,350,000</u>	<u>\$ 1,323,859</u>	<u>\$ 3,673,859</u>

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Year	OPWC Loans - Sewer - 2001 Issue		
	Principal	Interest	Total
2004	\$ 10,332	\$ -	\$ 10,332
2005	10,333	-	10,333
2006	10,332	-	10,332
2007	10,333	-	10,333
2008	10,332	-	10,332
2009 - 2013	51,663	-	51,663
2014 - 2018	51,662	-	51,662
2019 - 2021	30,997	-	30,997
Total	\$ 185,984	\$ -	\$ 185,984

- C. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5 percent of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5 percent of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2003, the City's total debt margin was \$17,739,979, and the unvoted debt margin was \$2,691,586; both amounts include available funds of \$108,353.

12. 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. Overtime worked is always paid, or accrued, to employees on the paycheck for the period in which it was worked.

Upon retirement, police officers and firefighters are paid for 33½ percent of their accumulated hours of sick leave, up to 1,800 hours for a maximum payout of 600 hours. All other employees are paid for 42 percent of their accumulated hours of sick leave, up to 1,200 hours for a maximum payout of 500 hours. Upon retirement, termination, or death of

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the employee, accrued vacation is paid for time the employees have earned but not yet used.

As of December 31, 2003, the liability for unpaid compensated absences reported in governmental activities was \$664,888. The liability for compensated absences in business-type activities was \$337,888 at December 31, 2003. The total liability for the City's compensated absences was \$1,002,776.

13. 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 City 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 percent, rather than using a risk pool of member funds to pay individual and collective losses. Therefore, the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.

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.

14. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$592,456, \$569,195, and \$539,572, respectively; 88.64 percent has been contributed for 2003 and 100 percent for 2002 and 2001. \$67,322 represents the unpaid contribution for 2003, and is recorded as a liability within the respective funds.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and

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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. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$318,862 and \$277,031 for the year ended December 31, 2003, \$313,151 and \$272,069 for the year ended December 31, 2002, and \$297,602 and \$258,561 for the year ended December 31, 2001. 70.29 percent has been contributed for 2003 and 100 percent for the years 2002 and 2001. \$177,022, representing the unpaid contributions for 2003, is recorded as a liability within the respective funds.

15. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, *"Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers"*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.31 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually

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(assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$218,618. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

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

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

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FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

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 the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$126,588 for police and \$89,481 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

16. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses 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).

**CITY OF FREMONT
SANDUSKY COUNTY**

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

4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

Net Change in Fund Balance		
	General	Municipal Income Tax
Budget basis	\$ (237,272)	\$ 85,370
Net adjustment for revenue accruals	(12,045)	(77,742)
Net adjustment for expenditure accruals	(31,989)	379
Adjustment for encumbrances	52,438	1,556
GAAP basis	\$ (228,868)	\$ 9,563

17. CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2003.

B. Litigation

The City is a party to several legal proceedings seeking damages or injunctive relief generally incidental to its operations. The City management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material adverse effect, if any, on the financial condition of the City.

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**Auditor of State
Betty Montgomery**

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

City of Fremont
Sandusky County
323 South Front Street
Fremont, Ohio 43420-3037

To the City Council:

We have audited the financial statements of the City of Fremont, Sandusky County, (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated October 7, 2004, which was qualified for our inability to obtain sufficient evidential matter supporting the amounts reported as income tax revenue and the related receivables. We noted that during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis for State and Local Governments* and that the City changed its capital assets threshold policy. Except as discussed in the first sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the City in a separate letter dated October 7, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the City in a separate letter dated October 7, 2004.

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



Betty Montgomery
Auditor of State

October 7, 2004

**CITY OF FREMONT
SANDUSKY COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2003

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

FINDING NUMBER 2003-001

Material Weakness - Income Tax

The City Income Tax Department records did not include all residents of the City of Fremont. There was no assurance all revenues due to the City had been collected or included as a receivable on the income tax accounting system. The City has implemented a plan to identify all taxpayers in preparation for a mandatory filing requirement which will be effective for the taxes due by April 15, 2005 for tax year 2004. The City has completed one phase of the plan and is in the process of completing a second phase. We recommend the City complete the plan of action to identify all taxpayers and ensure completeness of the taxpayer data base.

**CITY OF FREMONT
SANDUSKY COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Ohio Revised Code § 5705.36 An Amended certificate had not been obtained when revenues received were other than the amounts estimated.	Yes	
2002-002	Various weaknesses in accounting for income taxes resulted in an inability to ensure completeness of financial information.	No	Partially corrected. Reported as Finding 2003-001. Council adopted a new mandatory filing requirement to the Income Tax Ordinance effective 1/1/04. The City has implemented a plan to correct this weakness.



**Auditor of State
Betty Montgomery**

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**CITY OF FREMONT
SANDUSKY COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 4, 2004**