



**Auditor of State  
Betty Montgomery**



**CITY OF FREMONT  
SANDUSKY COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

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, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fremont, Sandusky County, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Municipal Income Tax funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

October 25, 2006

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

The management's 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, 2005. 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 2005 are as follows:

- The total net assets of the City increased \$2,889,370 or 3.95% over 2004. Net assets of governmental activities increased \$2,230,831 or 6.86% over 2004 and net assets of business-type activities increased \$658,539 or 1.62% over 2004.
- General revenues accounted for \$10,822,999 or 75.09% of total governmental activities revenue. Program specific revenues accounted for \$3,590,984 or 24.91% of total governmental activities revenue.
- The City had \$11,555,257 in expenses related to governmental activities; \$3,590,984 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$7,964,273 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$10,822,999.
- The general fund had revenues and other financing sources of \$7,509,707 in 2005. This represents an increase of \$343,404 or 4.79% from 2004. The expenditures and other financing uses of the general fund, which totaled \$7,477,432 in 2005, increased \$424,844 or 6.02% from 2004. The net increase in fund balance for the general fund was \$32,275 or 1.20%.
- The municipal income tax fund had revenues of \$8,057,122 in 2005. The expenditures of the municipal income tax fund totaled \$544,579 in 2005. The municipal income tax fund had transfers out to other funds in the amount of \$7,030,000. The net increase in fund balance for the municipal income tax fund was \$482,543.
- The capital improvement fund had revenues and other financing sources of \$2,728,723 in 2005. The expenditures of the capital improvement fund totaled \$4,015,722 in 2005. The net decrease in fund balance for the capital improvement fund was \$1,286,999.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2005 by \$658,539. This increase in net assets was due primarily to charges for services revenue sufficient to cover operating expenses and transfers in from governmental funds.
- In the general fund, actual revenues and other financing sources were \$276,933 higher than the final budget revenues and actual expenditures were \$377,608 less than the final budget expenditures. These positive variances are the result of the City's conservative budgeting. Budgeted expenditures did not change in total from the original budget to the final budget.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

**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 2005?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

**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.

***Governmental Funds***

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and non-major funds. The City's major governmental funds are the general fund, municipal income tax fund and capital improvement 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.

***Proprietary Funds***

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer 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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

***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.

***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.

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net assets for 2005 and 2004:

	<b>Net Assets</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		2005	2004
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>Total</u>	<u>Total</u>
<u>Assets</u>						
Current and other assets	\$ 16,279,645	\$ 16,983,244	\$ 9,031,541	\$ 18,865,724	\$ 25,311,186	\$ 35,848,968
Capital assets	<u>25,009,562</u>	<u>22,562,829</u>	<u>44,610,059</u>	<u>34,106,877</u>	<u>69,619,621</u>	<u>56,669,706</u>
Total assets	<u>41,289,207</u>	<u>39,546,073</u>	<u>53,641,600</u>	<u>52,972,601</u>	<u>94,930,807</u>	<u>92,518,674</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	5,242,556	5,416,818	11,476,471	12,111,128	16,719,027	17,527,946
Other liabilities	<u>1,291,930</u>	<u>1,605,365</u>	<u>905,102</u>	<u>259,985</u>	<u>2,197,032</u>	<u>1,865,350</u>
Total liabilities	<u>6,534,486</u>	<u>7,022,183</u>	<u>12,381,573</u>	<u>12,371,113</u>	<u>18,916,059</u>	<u>19,393,296</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	21,264,562	18,627,828	33,516,345	22,342,067	54,780,907	40,969,895
Restricted	2,700,043	1,534,275			2,700,043	1,534,275
Unrestricted	<u>10,790,116</u>	<u>12,361,787</u>	<u>7,743,682</u>	<u>18,259,421</u>	<u>18,533,798</u>	<u>30,621,208</u>
Total net assets	<u>\$ 34,754,721</u>	<u>\$ 32,523,890</u>	<u>\$ 41,260,027</u>	<u>\$ 40,601,488</u>	<u>\$ 76,014,748</u>	<u>\$ 73,125,378</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$76,014,748. At year-end, net assets were \$34,754,721 and \$41,260,027 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, 2005  
UNAUDITED  
(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 73.34% 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, 2005, were \$21,264,562 and \$33,516,345 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, 2005, 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, \$2,700,043 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 \$10,790,116 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 years 2005 and 2004.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

	Change in Net Assets					
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>	Business-type Activities <u>2005</u>	Business-type Activities <u>2004</u>	2005 Total	2004 Total
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 949,010	\$ 867,278	\$ 6,980,968	\$ 7,020,600	\$ 7,929,978	\$ 7,887,878
Operating grants and contributions	1,383,118	1,086,517			1,383,118	1,086,517
Capital grants and contributions	<u>1,258,856</u>	<u>410,704</u>	-	<u>8,896,666</u>	<u>1,258,856</u>	<u>9,307,370</u>
Total program revenues	<u>3,590,984</u>	<u>2,364,499</u>	<u>6,980,968</u>	<u>15,917,266</u>	<u>10,571,952</u>	<u>18,281,765</u>
General revenues:						
Property taxes	1,077,417	981,928			1,077,417	981,928
Income taxes	7,934,550	7,158,152			7,934,550	7,158,152
Unrestricted grants and entitlements	1,019,003	1,020,177			1,019,003	1,020,177
Investment earnings	499,241	221,340	242,891	158,964	742,132	380,304
Miscellaneous	<u>292,788</u>	<u>473,190</u>	-	<u>26,440</u>	<u>292,788</u>	<u>499,630</u>
Total general revenues	<u>10,822,999</u>	<u>9,854,787</u>	<u>242,891</u>	<u>185,404</u>	<u>11,065,890</u>	<u>10,040,191</u>
Total revenues	<u>14,413,983</u>	<u>12,219,286</u>	<u>7,223,859</u>	<u>16,102,670</u>	<u>21,637,842</u>	<u>28,321,956</u>
Expenses:						
General government	2,221,957	1,833,226			2,221,957	1,833,226
Security of persons and property	5,295,143	4,963,348			5,295,143	4,963,348
Public health and welfare	12,084	18,563			12,084	18,563
Transportation	1,415,826	2,283,598			1,415,826	2,283,598
Community environment	342,630	421,172			342,630	421,172
Leisure time activity	1,731,896	1,682,704			1,731,896	1,682,704
Economic development	234,980	76,942			234,980	76,942
Other	87,719	17,432			87,719	17,432
Interest and fiscal charges	213,022	226,426			213,022	226,426
Water			3,878,269	3,584,545	3,878,269	3,584,545
Sewer	-	-	<u>3,314,946</u>	<u>3,316,083</u>	<u>3,314,946</u>	<u>3,316,083</u>
Total expenses	<u>11,555,257</u>	<u>11,523,411</u>	<u>7,193,215</u>	<u>6,900,628</u>	<u>18,748,472</u>	<u>18,424,039</u>
Increase in net assets before transfers	2,858,726	695,875	30,644	9,202,042	2,889,370	9,897,917
Transfers	<u>(627,895)</u>	<u>(842,326)</u>	<u>627,895</u>	<u>842,326</u>	-	-
Increase in net assets	2,230,831	(146,451)	658,539	10,044,368	2,889,370	9,897,917
Net assets at beginning of year	<u>32,523,890</u>	<u>32,670,341</u>	<u>40,601,488</u>	<u>30,557,120</u>	<u>73,125,378</u>	<u>63,227,461</u>
Net assets at end of year	<u>\$ 34,754,721</u>	<u>\$ 32,523,890</u>	<u>\$ 41,260,027</u>	<u>\$ 40,601,488</u>	<u>\$ 76,014,748</u>	<u>\$ 73,125,378</u>

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

**Governmental Activities**

Governmental activities net assets increased \$2,230,831 in 2005. This increase is a result of increased revenues.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,295,143 of the total expenses of the City. These expenses were partially funded by \$276,712 in direct charges to users of the services. General government expenses totaled \$2,221,957. General government expenses were partially funded by \$122,281 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$1,383,118 in operating grants and contributions and \$1,258,856 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$1,056,000 subsidized leisure time activity programs. Of the total operating grants and contributions, \$989,759 subsidized transportation programs, \$227,047 subsidized community environment programs and \$116,312 subsidized economic development activities.

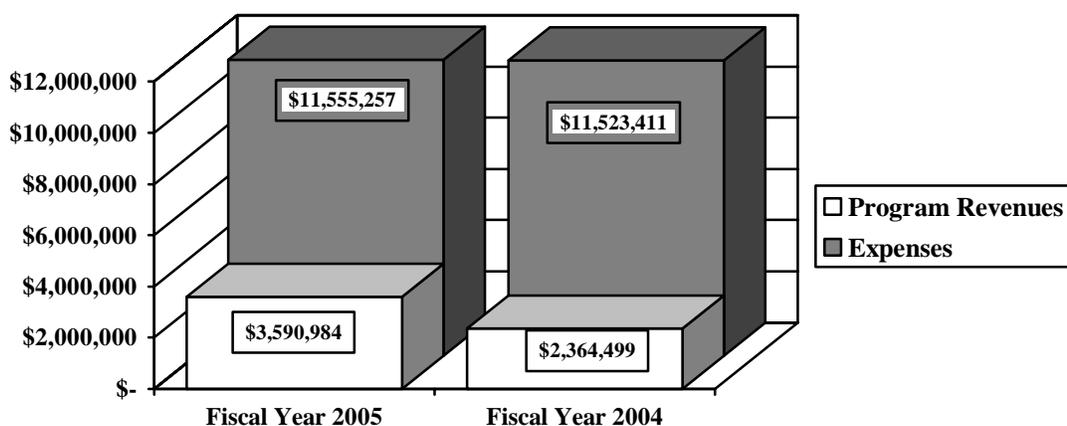
General revenues totaled \$10,822,999, and amounted to 75.09% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$9,011,967. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$1,019,003.

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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

**Governmental Activities – Program Revenues vs. Total Expenses**



**Governmental Activities**

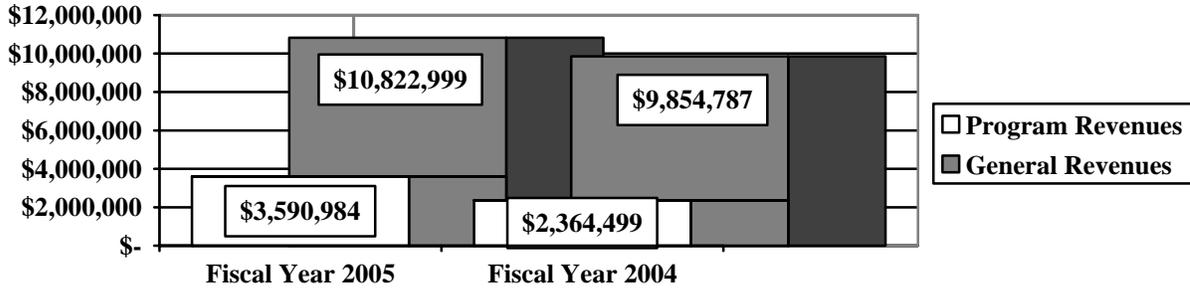
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program Expenses:				
General government	\$ 2,221,957	\$ 2,073,527	\$ 1,833,226	\$ 1,739,692
Security of persons and property	5,295,143	4,994,580	4,963,348	4,640,163
Public health and welfare	12,084	11,419	18,563	18,563
Transportation	1,415,826	309,311	2,283,598	1,157,350
Community environment	342,630	107,839	421,172	59,528
Leisure time activity	1,731,896	155,147	1,682,704	1,235,875
Economic development	234,980	112,516	76,942	63,883
Other	87,719	(13,088)	17,432	17,432
Interest and fiscal charges	213,022	213,022	226,426	226,426
<b>Total</b>	<b>\$ 11,555,257</b>	<b>\$ 7,964,273</b>	<b>\$ 11,523,411</b>	<b>\$ 9,158,912</b>

The dependence upon general revenues for governmental activities is apparent, with 68.92% 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, 2005  
UNAUDITED  
(Continued)**

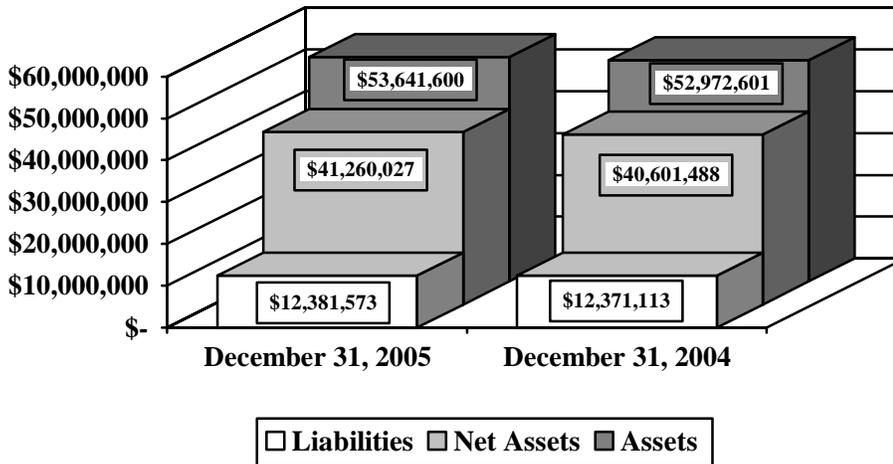
**Governmental Activities – General and Program Revenues**



**Business-type Activities**

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$6,980,968, general revenues of \$242,891, transfers in of \$627,895 and expenses of \$7,193,215 for 2005. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

**Net Assets in Business – Type Activities**



**Financial Analysis of the Government's Funds**

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

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
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(Continued)**

**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 reported a combined fund balance of \$13,641,762 which is \$507,050 below last year's total of \$14,148,812. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005, for all major and nonmajor governmental funds.

	<u>Fund Balances</u> 12/31/05	<u>Fund Balances</u> 12/31/04	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 2,715,322	\$ 2,683,047	\$ 32,275
Municipal income tax	4,948,021	4,465,478	482,543
Capital improvement	1,183,504	2,470,503	(1,286,999)
Other nonmajor governmental funds	<u>4,794,915</u>	<u>4,529,784</u>	<u>265,131</u>
Total	<u>\$ 13,641,762</u>	<u>\$ 14,148,812</u>	<u>\$ (507,050)</u>

**General Fund**

The City's general fund balance increased \$32,275, primarily due to an increase in investment income. The table that follows assists in illustrating the revenues of the general fund.

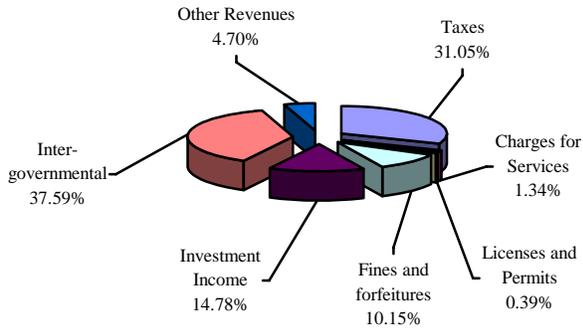
	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 903,461	\$ 805,743	12.13 %
Charges for services	38,958	49,085	(20.63) %
Licenses and permits	11,433	12,599	(9.25) %
Fines and forfeitures	295,236	300,297	(1.69) %
Intergovernmental	1,093,605	992,885	10.14 %
Investment income	430,115	194,902	120.68 %
Other	<u>136,899</u>	<u>203,934</u>	<u>(32.87) %</u>
Total	<u>\$ 2,909,707</u>	<u>\$ 2,559,445</u>	13.69 %

Tax revenue represents 31.05% of all general fund revenue. Tax revenue increased slightly by 12.13% over the prior year. The increase in investment income is due to aggressive management of the City's investment portfolio. The increase in taxes revenue is due to an increase in the collections of real and other taxes. All other revenue remained comparable to 2004.

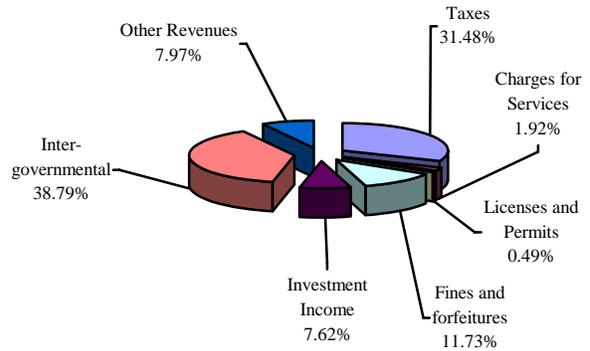
**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

**Revenues – Fiscal Year 2005**



**Revenues – Fiscal Year 2004**



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

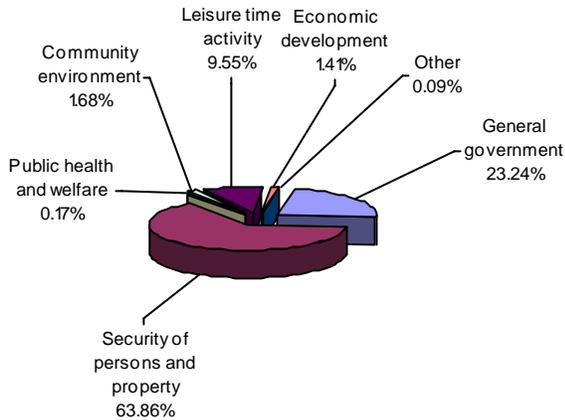
	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 1,612,381	\$ 1,427,005	12.99 %
Security of persons and property	4,430,398	4,221,150	4.96 %
Public health and welfare	11,999	18,563	(35.36) %
Community environment	116,331	112,711	3.21 %
Leisure time activity	662,834	645,711	2.65 %
Economic development	98,133	93,960	4.44 %
Other	<u>6,356</u>	<u>12,007</u>	(47.06) %
<b>Total</b>	<b><u>\$ 6,938,432</u></b>	<b><u>\$ 6,531,107</u></b>	<b>6.24 %</b>

The most significant decrease was in the area of other and public health and welfare programs. These decreases are primarily due to the control of expenditures by the City. All other expenditures remained comparable to 2004. 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.

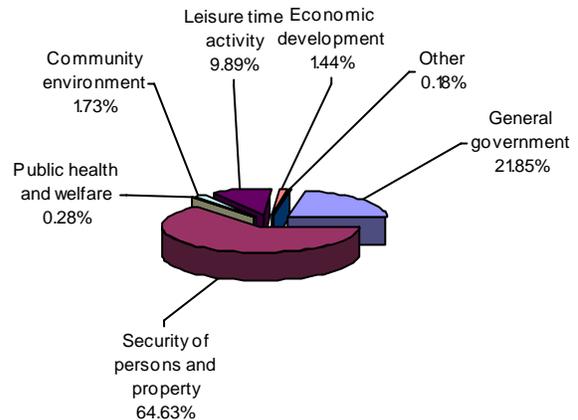
**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

**Expenditures - Fiscal Year 2005**



**Expenditures - Fiscal Year 2004**



***Municipal Income Tax Fund***

The municipal income tax fund had revenues of \$8,057,122 in 2005. The expenditures of the municipal income tax fund totaled \$544,579 in 2005. The municipal income tax fund had transfers out to other funds in the amount of \$7,030,000. The net increase in fund balance for the municipal income tax fund was \$482,543.

***Capital Improvement Fund***

The capital improvement fund had revenues and other financing sources of \$2,728,723 in 2005. The expenditures of the capital improvement fund totaled \$4,015,722 in 2005. The net decrease in fund balance for the capital improvement fund was \$1,286,999.

***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, there were no changes in total between the original and final budgeted amount in the area of expenditures. Actual revenues of \$7,513,533 exceeded final budgeted revenues by \$276,933. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$377,608 lower than the final budgeted amounts.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

In the municipal income tax fund, one of the most significant changes was between the actual revenues of \$8,045,987 being higher than final budgeted revenues and other financing sources by \$812,887. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$35,983 lower than the final budgeted amounts.

***Proprietary Funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances) 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 2005, the City had \$69,619,621 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress (CIP). Of this total, \$25,009,562 was reported in governmental activities and \$44,610,059 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

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

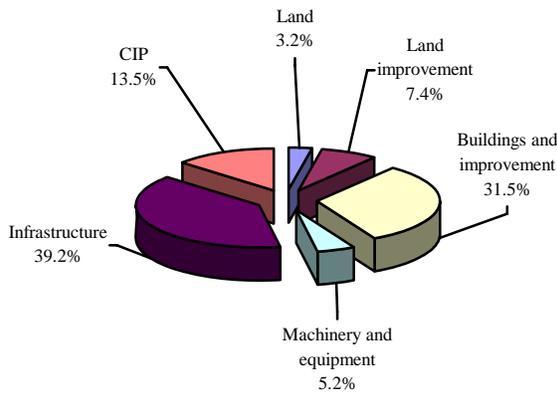
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 798,709	\$ 798,709	\$ 898,891	\$ 899,291	\$ 1,697,600	\$ 1,698,000
Land improvements	1,857,617	1,884,490	776,204	201,461	2,633,821	2,085,951
Buildings and improvements	7,881,895	8,107,228	12,948,557	13,600,745	20,830,452	21,707,973
Machinery and equipment	1,305,354	1,443,849	1,887,059	1,917,375	3,192,413	3,361,224
Infrastructure	9,797,256	9,796,917	9,860,603	9,463,355	19,657,859	19,260,272
Construction in progress	<u>3,368,731</u>	<u>531,636</u>	<u>18,238,745</u>	<u>8,024,650</u>	<u>21,607,476</u>	<u>8,556,286</u>
Totals	<u>\$ 25,009,562</u>	<u>\$ 22,562,829</u>	<u>\$ 44,610,059</u>	<u>\$ 34,106,877</u>	<u>\$ 69,619,621</u>	<u>\$ 56,669,706</u>

**CITY OF FREMONT  
SANDUSKY COUNTY**

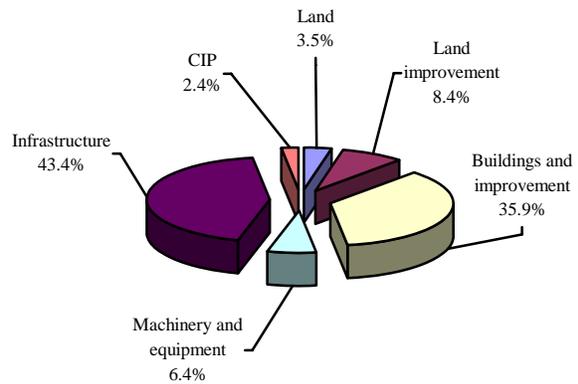
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

**Capital Assets - Governmental Activities 2005**



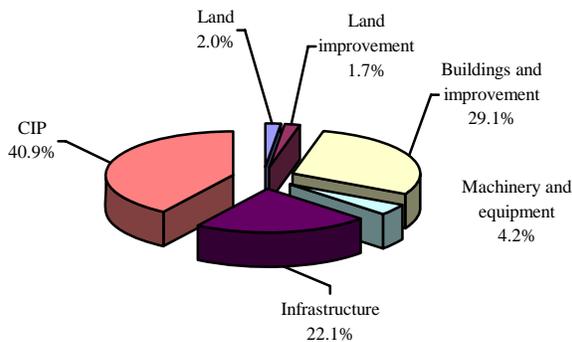
**Capital Assets - Governmental Activities 2004**



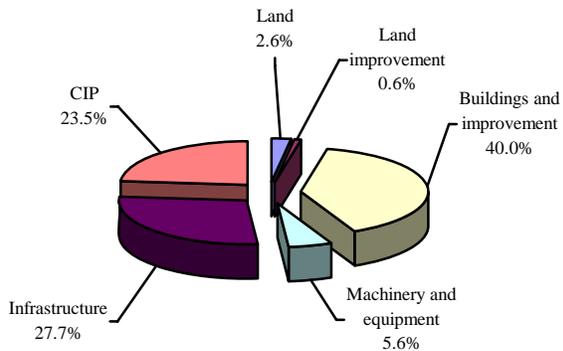
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 39.2% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2005 and 2004.

**Capital Assets - Business-Type Activities 2005**



**Capital Assets - Business-Type Activities 2004**



**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

The City's third 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 22.1% of the City's total business-type capital assets.

***Debt Administration***

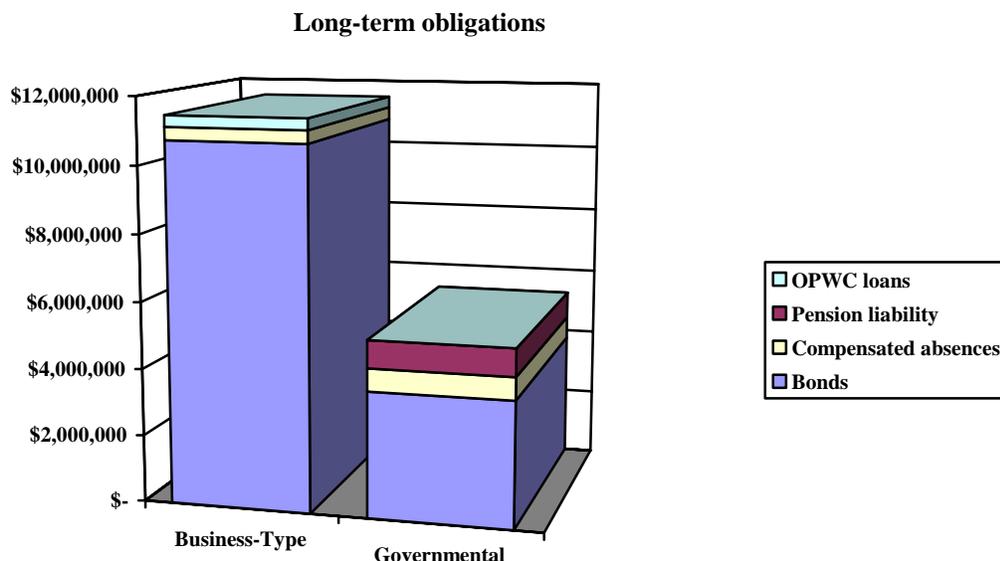
The City had the following long-term obligations outstanding at December 31, 2005 and 2004:

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Compensated absences	\$ 677,752	\$ 648,240
General obligation bonds	3,745,000	3,935,000
Pension liability	<u>819,804</u>	<u>833,578</u>
 Total long-term obligations	 <u>\$ 5,242,556</u>	 <u>\$ 5,416,818</u>
	Business-type Activities	
	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 10,755,000	\$ 11,535,000
OPWC loans	338,714	229,811
Compensated absences	<u>382,757</u>	<u>346,317</u>
 Total long-term obligations	 <u>\$ 11,476,471</u>	 <u>\$ 12,111,128</u>

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

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



**Economic Conditions and Outlook**

Manufacturing companies, retailers, commercial businesses, health care providers and homebuilders are making real and personal property investments in Fremont. Examples of manufacturing growth include Alkon Corporation expanding their facility by 16,200 sq. ft. Two new machines were purchased and new employees will be added to their 65-employee workforce. Century Die Co. is expanding in 2006 by adding 7,480 sq. ft. and hiring 15 new employees bringing their employment level to 82 people.

New customer contracts made it necessary for Fremont Plastic Products to expand its operation by adding new manufacturing equipment in 2005. Additional employees will be added to the existing 220 people that currently work at the plastics company. Kaufman Engineered Systems, Inc. is moving to Fremont into a 30,000 sq. ft. building. A total of 15 people will be employed at the new business.

Sandusky County's largest employer, Whirlpool Corporation, recently announced an expansion to its Clyde, Ohio facility. As a result, 553 new jobs will be added to its current 3,200 employees. This expansion will create job opportunities for Fremont residents and give a boost to the Fremont companies that are suppliers to Whirlpool's operation.

The widening of SR 53 between North Street and the Ohio Turnpike began June 6, 2005, with a projected completion date set for August 1, 2007. The \$14.8 million ODOT project consists of widening the existing two-lane road to four lanes. Within the SR 53 corridor, construction started on December 30, 2005, for a 6,060 sq. ft. Fricker's restaurant. The restaurant will be able to seat 208 guests and will open in June 2006. In addition, a new strip mall is being planned to accommodate up to 14 new retail businesses.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

Pinnacle Drive Office Park is a new addition to Fremont that provides sites for the construction of professional buildings. A financial planner and doctor's office are already being developed in the 10-acre office park.

In October 2005, Memorial Hospital announced a \$5 million physical and occupational therapy expansion project. Groundbreaking for the Center for Physical Health should take place during the summer of 2006.

Single-family homes and condominium units continue to be built in Fremont. In addition to four current housing development projects, an announcement was made for Meadow Creek Condominiums near Smith Road. The 135-unit project will include duplex, triplex and single unit condominiums. The first units will be completed in the fall of 2006.

**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 43420-3037.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 11,771,786	\$ 7,344,890	\$ 19,116,676
Receivables (net of allowances for uncollectibles):			
Income taxes	2,121,472		2,121,472
Property and other local taxes	949,639		949,639
Accounts	93,027	900,211	993,238
Loans	353,991		353,991
Due from other governments	939,370		939,370
Materials and supplies inventory	67,902	286,726	354,628
Deferred bond issuance costs		440,007	440,007
Internal balance	(17,542)	17,542	
Restricted assets:			
Equity in pooled cash and cash equivalents		42,165	42,165
Capital assets:			
Land and construction-in-progress	4,167,440	19,137,636	23,305,076
Depreciable capital assets, net	20,842,122	25,472,423	46,314,545
Total capital assets	<u>25,009,562</u>	<u>44,610,059</u>	<u>69,619,621</u>
<i>Total assets</i>	<u>41,289,207</u>	<u>53,641,600</u>	<u>94,930,807</u>
<b>Liabilities:</b>			
Accounts payable	135,628	108,398	244,026
Accrued wages and benefits	240,023	107,696	347,719
Pension obligation payable	176,631	8,120	184,751
Due to claimants	3,662		3,662
Retainage Payable		618,686	618,686
Accrued interest payable	11,648	20,037	31,685
Deferred revenue	724,338		724,338
Payable from restricted assets:			
Refundable deposits		42,165	42,165
Long-term liabilities:			
Due within one year	253,268	845,790	1,099,058
Due in more than one year	4,989,288	10,630,681	15,619,969
<i>Total liabilities</i>	<u>6,534,486</u>	<u>12,381,573</u>	<u>18,916,059</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	21,264,562	33,516,345	54,780,907
Restricted for:			
Capital projects			
Debt service	151,430		151,430
Transportation projects	1,564,513		1,564,513
Other purposes	984,100		984,100
Unrestricted	10,790,116	7,743,682	18,533,798
<i>Total net assets</i>	<u>\$ 34,754,721</u>	<u>\$ 41,260,027</u>	<u>\$ 76,014,748</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF FREMONT  
SANDUSKY COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

		Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>				
General government	\$ 2,221,957	\$ 122,281	\$ 26,149	
Security of persons and property	5,295,143	276,712	23,851	
Public health and welfare	12,084	665		
Transportation	1,415,826	13,900	\$ 102,856	
Community environment	342,630	7,744	227,047	
Leisure time activity	1,731,896	520,749	1,056,000	
Economic development	234,980	6,152	116,312	
Other	87,719	807	100,000	
Interest and fiscal charges	213,022			
<i>Total governmental activities</i>	<u>11,555,257</u>	<u>949,010</u>	<u>1,383,118</u>	<u>1,258,856</u>
<b>Business-type Activities:</b>				
Water	3,878,269	3,228,382		
Sewer	3,314,946	3,752,586		
<i>Total business-type activities</i>	<u>7,193,215</u>	<u>6,980,968</u>		
<i>Total primary government</i>	<u>\$ 18,748,472</u>	<u>\$ 7,929,978</u>	<u>\$ 1,383,118</u>	<u>\$ 1,258,856</u>

**General Revenues:**

Income taxes levied for:  
     Special purposes  
 Property taxes levied for:  
     General purposes  
     Special purposes  
 Grants and entitlements not restricted to specific programs  
 Investment earnings  
 Miscellaneous

*Total general revenues*

Transfers . . . . .

Change in net assets . . . . .

*Net assets at beginning of year* . . . . .

*Net assets at end of year* . . . . .

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net Revenue (Expense) and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (2,073,527)		\$ (2,073,527)
(4,994,580)		(4,994,580)
(11,419)		(11,419)
(309,311)		(309,311)
(107,839)		(107,839)
(155,147)		(155,147)
(112,516)		(112,516)
13,088		13,088
(213,022)		(213,022)
(7,964,273)		(7,964,273)
	\$ (649,887)	(649,887)
	437,640	437,640
	(212,247)	(212,247)
(7,964,273)	(212,247)	(8,176,520)
7,934,550		7,934,550
907,497		907,497
169,920		169,920
1,019,003		1,019,003
499,241	242,891	742,132
292,788		292,788
10,822,999	242,891	11,065,890
(627,895)	627,895	
2,230,831	658,539	2,889,370
32,523,890	40,601,488	73,125,378
\$ 34,754,721	\$ 41,260,027	\$ 76,014,748

**CITY OF FREMONT  
SANDUSKY COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	General	Municipal Income Tax	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in pooled cash and cash equivalents	\$ 2,939,947	\$ 3,321,503	\$ 1,245,174	\$ 4,185,214	\$ 11,691,838
Receivables (net of allowance for uncollectibles):					
Income taxes		2,121,472			2,121,472
Property and other local taxes	771,581			178,058	949,639
Accounts	20,905	64,976		7,146	93,027
Loans				353,991	353,991
Due from other governments	534,552			404,818	939,370
Materials and supplies inventory				67,902	67,902
<b>Total assets</b>	<b>\$ 4,266,985</b>	<b>\$ 5,507,951</b>	<b>\$ 1,245,174</b>	<b>\$ 5,197,129</b>	<b>\$ 16,217,239</b>
<b>Liabilities:</b>					
Accounts payable	\$ 59,152	\$ 2,171	\$ 61,670	\$ 12,085	\$ 135,078
Accrued wages and benefits	205,325	5,650		27,121	238,096
Pension obligation payable	174,144	413		1,935	176,492
Due to claimants	3,662				3,662
Deferred revenue	1,109,380	551,696		361,073	2,022,149
<b>Total liabilities</b>	<b>1,551,663</b>	<b>559,930</b>	<b>61,670</b>	<b>402,214</b>	<b>2,575,477</b>
<b>Fund balances:</b>					
Reserved for encumbrances	17,451	2,535	569,451	68,800	658,237
Reserved for materials and supplies inventory				67,902	67,902
Reserved for loans				353,991	353,991
Reserved for unclaimed monies	17,204				17,204
Unreserved:					
Designated for workers compensation	344,934				344,934
Undesignated, reported in:					
General fund	2,335,733				2,335,733
Special revenue funds		4,945,486		3,545,515	8,491,001
Debt service funds				163,078	163,078
Capital projects funds			614,053	595,629	1,209,682
<b>Total fund balances</b>	<b>2,715,322</b>	<b>4,948,021</b>	<b>1,183,504</b>	<b>4,794,915</b>	<b>13,641,762</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,266,985</b>	<b>\$ 5,507,951</b>	<b>\$ 1,245,174</b>	<b>\$ 5,197,129</b>	<b>\$ 16,217,239</b>

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, 2005

<b>Total governmental fund balances</b>		\$	13,641,762
 <b><i>Amounts reported for governmental activities on the statement of net assets are different because:</i></b>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			25,009,562
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Income tax	\$	551,696	
Property and other local taxes		57,116	
Intergovernmental		688,999	
Total			1,297,811
Internal service funds are used by management to charge the costs of internal equipment service and employee benefits to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net assets. The net assets of the internal service funds, including an internal balance of \$17,542, are:			59,790
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		3,745,000	
Ohio Police and Fire pension obligation		819,804	
Compensated absences		677,752	
Accrued interest		11,648	
Total			(5,254,204)
<i>Net assets of governmental activities</i>		\$	34,754,721

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, 2005

	General	Municipal Income Tax	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Income taxes		\$ 7,978,051			\$ 7,978,051
Property and other local taxes	\$ 903,461			\$ 168,988	1,072,449
Charges for services	38,958	60		489,130	528,148
Licenses, permits and fees	11,433				11,433
Fines and forfeitures	295,236			56,679	351,915
Intergovernmental	1,093,605		\$ 1,056,000	1,406,332	3,555,937
Special assessments			57,514		57,514
Investment income	430,115		14,819	53,776	498,710
Other	136,899	79,011	390	76,488	292,788
<i>Total revenues</i>	<u>2,909,707</u>	<u>8,057,122</u>	<u>1,128,723</u>	<u>2,251,393</u>	<u>14,346,945</u>
<b>Expenditures:</b>					
Current:					
General government	1,612,381	544,579		61,405	2,218,365
Security of persons and property	4,430,398			670,734	5,101,132
Public health and welfare	11,999				11,999
Transportation				696,738	696,738
Community environment	116,331			229,500	345,831
Leisure time activity	662,834			859,000	1,521,834
Economic development and assistance	98,133			126,088	224,221
Other	6,356			80,758	87,114
Capital outlay			4,015,722	207,856	4,223,578
Debt service:					
Principal retirement				203,774	203,774
Interest and fiscal charges				219,409	219,409
<i>Total expenditures</i>	<u>6,938,432</u>	<u>544,579</u>	<u>4,015,722</u>	<u>3,355,262</u>	<u>14,853,995</u>
<i>Excess (deficiency) of revenues over (under) expenditures</i>	<u>(4,028,725)</u>	<u>7,512,543</u>	<u>(2,886,999)</u>	<u>(1,103,869)</u>	<u>(507,050)</u>
<b>Other financing sources (uses):</b>					
Transfers in	4,600,000		1,600,000	1,369,000	7,569,000
Transfers out	(539,000)	(7,030,000)			(7,569,000)
Sale of capital assets. . . . .					
<i>Total other financing sources (uses)</i>	<u>4,061,000</u>	<u>(7,030,000)</u>	<u>1,600,000</u>	<u>1,369,000</u>	
<i>Net change in fund balances</i>	32,275	482,543	(1,286,999)	265,131	(507,050)
<i>Fund balances at beginning of year</i>	<u>2,683,047</u>	<u>4,465,478</u>	<u>2,470,503</u>	<u>4,529,784</u>	<u>14,148,812</u>
<i>Fund balances at end of year</i>	<u>\$ 2,715,322</u>	<u>\$ 4,948,021</u>	<u>\$ 1,183,504</u>	<u>\$ 4,794,915</u>	<u>\$ 13,641,762</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, 2005**

<b>Net change in fund balances - total governmental funds</b>	\$	(507,050)
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
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 (\$3,803,316) exceeded depreciation expense (\$1,353,596) in the current period.		2,449,720
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.		(2,987)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		66,507
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		203,774
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		6,387
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.		(29,512)
Internal service funds used by management to charge the costs of internal equipment service and employee benefits to individual funds are 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 funds, including internal balances, is allocated among the governmental activities.		43,992
		<hr style="border-top: 1px solid black;"/>
Change in net assets of governmental activities	\$	<u><u>2,230,831</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 (NON-GAAP BUDGETARY BASIS)

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property and other local taxes	\$ 885,000	\$ 885,000	\$ 903,461	\$ 18,461
Charges for services	47,700	47,700	45,533	(2,167)
Licenses, permits and fees	11,400	11,400	11,433	33
Fines and forfeitures	327,000	327,000	297,964	(29,036)
Intergovernmental	969,800	969,800	1,084,307	114,507
Investment income	250,000	250,000	435,194	185,194
Other	139,700	139,700	123,591	(16,109)
<i>Total revenues</i>	<u>2,630,600</u>	<u>2,630,600</u>	<u>2,901,483</u>	<u>270,883</u>
<b>Expenditures:</b>				
Current:				
General government	1,732,655	1,732,655	1,621,902	110,753
Security of persons and property	4,589,130	4,595,130	4,447,138	147,992
Public health and welfare	26,700	26,700	12,079	14,621
Community environment	131,245	131,245	116,978	14,267
Leisure time activity	705,800	705,800	664,814	40,986
Economic development and assistance	105,325	105,325	98,180	7,145
Other	48,200	48,200	6,356	41,844
Debt service:				
Principal retirement . . . . .				
Interest and fiscal charges . . . . .				
<i>Total expenditures</i>	<u>7,339,055</u>	<u>7,345,055</u>	<u>6,967,447</u>	<u>377,608</u>
<i>Deficiency of revenues under expenditures</i>	<u>(4,708,455)</u>	<u>(4,714,455)</u>	<u>(4,065,964)</u>	<u>648,491</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets	6,000	6,000	12,050	6,050
Transfers in	4,600,000	4,600,000	4,600,000	
Transfers out	(545,000)	(539,000)	(539,000)	
<i>Total other financing sources (uses)</i>	<u>4,061,000</u>	<u>4,067,000</u>	<u>4,073,050</u>	<u>6,050</u>
<i>Net change in fund balance</i>	(647,455)	(647,455)	7,086	654,541
<i>Fund balance at beginning of year</i>	2,807,374	2,807,374	2,807,374	
Prior year encumbrances appropriated	55,272	55,272	55,272	
<i>Fund balance at end of year</i>	<u>\$ 2,215,191</u>	<u>\$ 2,215,191</u>	<u>\$ 2,869,732</u>	<u>\$ 654,541</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 (NON-GAAP BUDGETARY BASIS)  
MUNICIPAL INCOME TAX FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Income taxes	\$ 7,182,500	\$ 7,182,500	\$ 8,031,892	\$ 849,392
Charges for services	200	200	60	(140)
Other	50,200	50,200	14,035	(36,165)
<i>Total revenues</i>	<u>7,232,900</u>	<u>7,232,900</u>	<u>8,045,987</u>	<u>813,087</u>
<b>Expenditures:</b>				
Current:				
General government	582,427	582,427	546,444	35,983
<i>Total expenditures</i>	<u>582,427</u>	<u>582,427</u>	<u>546,444</u>	<u>35,983</u>
<i>Excess of revenues over expenditures</i>	<u>6,650,473</u>	<u>6,650,473</u>	<u>7,499,543</u>	<u>849,070</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets	200	200		(200)
Transfers out	(7,030,000)	(7,030,000)	(7,030,000)	
<i>Total other financing sources (uses)</i>	<u>(7,029,800)</u>	<u>(7,029,800)</u>	<u>(7,030,000)</u>	<u>(200)</u>
<i>Net change in fund balance</i>	(379,327)	(379,327)	469,543	848,870
<i>Fund balance at beginning of year</i>	2,846,961	2,846,961	2,846,961	
Prior year encumbrances appropriated	617	617	617	
<i>Fund balance at end of year</i>	<u>\$ 2,468,251</u>	<u>\$ 2,468,251</u>	<u>\$ 3,317,121</u>	<u>\$ 848,870</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT  
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2005**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<b>Assets:</b>				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 4,482,447	\$ 2,243,757	\$ 6,726,204	\$ 79,948
Receivables (net of allowance for uncollectibles):				
Accounts	438,685	461,526	900,211	
Materials and supplies inventory	238,173	48,553	286,726	
<b>Total current assets:</b>	<u>5,159,305</u>	<u>2,753,836</u>	<u>7,913,141</u>	<u>79,948</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents with esrow agents	618,686		618,686	
Equity in pooled cash and cash equivalents	42,165		42,165	
Deferred bond issuance costs	394,502	45,505	440,007	
Capital assets:				
Land and construction-in-progress	18,601,049	536,587	19,137,636	
Depreciable capital assets, net	15,909,445	9,562,978	25,472,423	
<b>Total noncurrent assets:</b>	<u>35,565,847</u>	<u>10,145,070</u>	<u>45,710,917</u>	
<b>Total assets</b>	<u>40,725,152</u>	<u>12,898,906</u>	<u>53,624,058</u>	<u>79,948</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable	53,086	55,312	108,398	550
Accrued wages and benefits	50,477	57,219	107,696	1,927
Pension obligation payable	3,807	4,313	8,120	139
Accrued interest payable	18,509	1,528	20,037	
Current portion of compensated absences	24,986	16,580	41,566	
Current portion of general obligation bonds payable	380,000	405,000	785,000	
Current portion of OPWC loans payable		19,224	19,224	
Payable from restricted assets:				
Retainage payable	618,686		618,686	
Refundable deposits	42,165		42,165	
<b>Total current liabilities</b>	<u>1,191,716</u>	<u>559,176</u>	<u>1,750,892</u>	<u>2,616</u>
Long-term liabilities:				
Compensated absences	144,154	197,037	341,191	
General obligation bonds payable	9,555,000	415,000	9,970,000	
Revenue bonds payable				
OPWC loans payable		319,490	319,490	
<b>Total long-term liabilities</b>	<u>9,699,154</u>	<u>931,527</u>	<u>10,630,681</u>	
<b>Total liabilities</b>	<u>10,890,870</u>	<u>1,490,703</u>	<u>12,381,573</u>	<u>2,616</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	24,575,494	8,940,851	33,516,345	
Restricted for capital projects				
Unrestricted	5,258,788	2,467,352	7,726,140	77,332
<b>Total net assets</b>	<u>\$ 29,834,282</u>	<u>\$ 11,408,203</u>	41,242,485	<u>\$ 77,332</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			17,542	
<b>Net assets of business-type activities</b>			<u>\$ 41,260,027</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT  
SANDUSKY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<b>Operating revenues:</b>				
Charges for services	\$ 3,140,643	\$ 3,685,415	\$ 6,826,058	\$ 396,652
Tap-in fees	35,670		35,670	
Other	52,069	67,171	119,240	
<i>Total operating revenues</i>	<u>3,228,382</u>	<u>3,752,586</u>	<u>6,980,968</u>	<u>396,652</u>
<b>Operating expenses:</b>				
Personal services	1,563,802	1,778,371	3,342,173	317,253
Contractual services	131,678	276,042	407,720	6,801
Materials and supplies	663,411	308,483	971,894	2,364
Utilities expense	206,465	332,536	539,001	8,178
Depreciation	725,251	482,437	1,207,688	
Other	65,877	68,635	134,512	1,316
<i>Total operating expenses</i>	<u>3,356,484</u>	<u>3,246,504</u>	<u>6,602,988</u>	<u>335,912</u>
<i>Operating income (loss)</i>	<u>(128,102)</u>	<u>506,082</u>	<u>377,980</u>	<u>60,740</u>
<b>Nonoperating revenues (expenses):</b>				
Interest revenue	226,704	16,187	242,891	531
Interest and fiscal charges	(430,821)	(48,527)	(479,348)	
Loss on disposal of capital assets	(98,797)	(29,361)	(128,158)	
<i>Total nonoperating revenues (expenses)</i>	<u>(302,914)</u>	<u>(61,701)</u>	<u>(364,615)</u>	<u>531</u>
<i>Net income (loss) before capital contributions</i>	<u>(431,016)</u>	<u>444,381</u>	<u>13,365</u>	<u>61,271</u>
Capital contributions	392,393	235,502	627,895	
Transfers in				
<i>Changes in net assets</i>	<u>(38,623)</u>	<u>679,883</u>	<u>641,260</u>	<u>61,271</u>
<i>Net assets at beginning of year</i>	<u>29,872,905</u>	<u>10,728,320</u>		<u>16,061</u>
<i>Net assets at end of year</i>	<u>\$ 29,834,282</u>	<u>\$ 11,408,203</u>		<u>\$ 77,332</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			17,279	
<i>Change in net assets of business-type activities</i>			<u>\$ 658,539</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, 2005

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities - Internal Service Funds</b>
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>	
<b>Cash flows from operating activities:</b>				
Cash received from charges for services	\$ 3,168,579	\$ 3,579,218	\$ 6,747,797	\$ 396,652
Cash received from tap-in fees	35,670		35,670	
Cash received from other operations	41,295	67,171	108,466	
Cash payments for personal services	(1,538,033)	(1,749,035)	(3,287,068)	(317,164)
Cash payments for contractual services	(126,763)	(281,006)	(407,769)	(6,742)
Cash payments for materials and supplies	(689,636)	(313,493)	(1,003,129)	(2,364)
Cash payments for utilities expense	(185,968)	(331,396)	(517,364)	(7,689)
Cash payments for other expenses	(66,291)	(68,635)	(134,926)	(1,316)
<i>Net cash provided by operating activities</i>	<u>638,853</u>	<u>902,824</u>	<u>1,541,677</u>	<u>61,377</u>
<b>Cash flows from capital and related financing activities:</b>				
Cash payments for the acquisition of capital assets	(10,484,574)	(735,768)	(11,220,342)	
Cash received from capital contributions	392,393	235,502	627,895	
Cash received from proceeds of loans		123,681	123,681	
Cash payments for principal retirement	(375,000)	(419,778)	(794,778)	
Cash payments for interest and fiscal charges	(418,357)	(26,550)	(444,907)	
<i>Net cash used in capital and related financing activities</i>	<u>(10,885,538)</u>	<u>(822,913)</u>	<u>(11,708,451)</u>	
<b>Cash flows from investing activities:</b>				
Cash received from interest earned	226,704	16,187	242,891	531
<i>Net cash provided by investing activities</i>	<u>226,704</u>	<u>16,187</u>	<u>242,891</u>	<u>531</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(10,019,981)	96,098	(9,923,883)	61,908
<i>Cash and cash equivalents at beginning of year</i>	15,163,279	2,147,659	17,310,938	18,040
<i>Cash and cash equivalents at end of year</i>	<u>\$ 5,143,298</u>	<u>\$ 2,243,757</u>	<u>\$ 7,387,055</u>	<u>\$ 79,948</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (128,102)	\$ 506,082	\$ 377,980	\$ 60,740
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	725,251	482,437	1,207,688	
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	27,936	(106,197)	(78,261)	
(Increase) decrease in materials and supplies inventory	(33,037)	2,983	(30,054)	
Increase (decrease) in accounts payable	32,871	(10,695)	22,176	550
Increase in accrued wages and benefits	8,835	9,445	18,280	133
Increase in compensated absences payable	16,877	19,563	36,440	
Decrease in pension obligation payable	(590)	(794)	(1,384)	(46)
Decrease in refundable deposits liability	(11,188)		(11,188)	
<i>Net cash provided by operating activities</i>	<u>\$ 638,853</u>	<u>\$ 902,824</u>	<u>\$ 1,541,677</u>	<u>\$ 61,377</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT  
SANDUSKY COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2005

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 12,359
Cash in segregated accounts	9,470
Receivables:	
Accounts	244
Due from other governments	<u>1,541</u>
<i>Total assets</i>	<u><u>\$ 23,614</u></u>
<b>Liabilities:</b>	
Due to other governments	\$ 2,359
Deposits held and due to others	<u>21,255</u>
<i>Total liabilities</i>	<u><u>\$ 23,614</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, 2005**

**NOTE 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.

**NOTE 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", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units".

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 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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**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 and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City’s governmental activities and for the business-type activities. 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 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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Municipal Income Tax Fund - The municipal income tax fund, a special revenue fund, accounts for monies derived from the 1.5% municipal income tax.

Capital Improvement Fund - The capital improvement fund, a capital projects fund, accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

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.

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 Funds - The internal service funds account for the financing of services provided by one fund or department to other funds or departments of the City on a cost-reimbursement basis. The City's internal service funds report on the operations of the servicing of internal equipment and the accumulation of monies for the payment of insurance premiums for employee benefits.

**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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**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 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 reconciliations 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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

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 nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 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.

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.

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**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, water fund and sewer fund, and at 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 2005.

**Appropriations** - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. The amounts set forth in the financial statements represent the original and final appropriations approved by City Council during 2005.

**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 reappropriated in the succeeding year.

**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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**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 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities and nonnegotiable certificates of deposit.

Cash and cash equivalents that are held separately for the City by escrow agents for payment of retainage to contractors upon project completion are recorded as "Cash and Cash Equivalents with Escrow Agents."

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 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, 2005.

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 2005 was \$430,115, which includes \$340,970 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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital 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 2005.

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>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	15-45 years	15-45 years
Buildings	30-50 years	30-50 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	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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments as well as the sick leave accumulated by those employees expected to become eligible to receive termination benefits in the future. The 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 service with the City up to a maximum of 500 hours for all employees except police sergeants, captains, and firefighters, which have a maximum of 600 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, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, 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.

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

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**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.

Cash and cash equivalents are held separately for the City by escrow agents for payment of retainage to contractors upon project completion.

Restricted assets at December 31, 2005, are comprised of the following:

	<u>Cash Equivalents</u>
Customer Deposits	\$ 42,165
Retainage Payable	<u>618,686</u>
Total Restricted Assets	<u>\$ 660,851</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.

**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.

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**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 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

For fiscal year 2005, the City has implemented GASB Statement No. 40, "Deposit And Investment Risk Disclosures" and GASB Statement No. 42, "Accounting And Financial Reporting For Impairment Of Capital Assets And For Insurance Recoveries".

GASB Statement No. 40 establishes and modifies disclosure requirements for custodial credit risk on deposits, and it establishes and modifies disclosure requirements related to investment risks; credit risk (including custodial credit risk and concentration of credit risk) and interest rate risk.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not have an effect on the basic financial statements of the City, however additional disclosure can be found in Note 4.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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.

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

Inactive deposits are public deposits that Council has identified as not required for use within the current five 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;
3. Written repurchase agreements in securities listed above provide 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 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.

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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, 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.

Restricted Equity in Pooled Cash: At year-end, the City had \$42,165 in restricted assets for refundable deposits from customers of the water fund. The City also had \$618,686 in assets restricted for escrow accounts whose use is limited to payment of retainage to contractors. These amounts are included in the "Deposits with Financial Institutions" below.

**A. Deposits with Financial Institutions**

As of December 31, 2005, the carrying amount of all City deposits was \$8,563,836. At December 31, 2005, \$334,086 of the City's bank balance of \$9,138,123 was covered by the Federal Deposit Insurance Corporation, and \$8,804,037 was exposed to custodial credit risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. As permitted by Ohio Revised Code, the City's deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

**B. Investments**

As of December 31, 2005, the City had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
FHLMC	\$ 1,957,972	\$ 1,957,972
STAR Ohio	8,649,392	8,649,392
	<u>\$ 10,607,364</u>	<u>\$ 10,607,364</u>

The weighted average maturity of investments is 0.09 years.

Interest Rate Risk: The Ohio Revised Code general limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk by requiring the consideration of market conditions and cash flow requirements in determining the term of an investment.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The City's other investments were rated AAA and Aaa by Standard & Poor's.

Concentration of Credit Risk: The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC	\$ 1,957,972	18.46%
STAR Ohio	8,649,392	81.54%
Total	<u>\$ 10,607,364</u>	<u>100.00%</u>

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

**C. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2005:

Cash and Investments per Note Disclosure

Carrying amount of deposits	\$ 8,563,836
Investments	10,607,364
Cash in segregated accounts	<u>9,470</u>
<b>Total</b>	<b><u>\$ 19,180,670</u></b>

Cash and investments per Statement of Net Assets

Governmental activities	\$ 11,771,786
Business type activities	7,387,055
Agency funds	<u>21,829</u>
<b>Total</b>	<b><u>\$ 19,180,670</u></b>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported in the fund financial statements:

Transfers out of general fund to:

Nonmajor governmental funds	\$ 539,000
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Transfers out of municipal income tax fund to:

General fund	4,600,000
Capital improvement fund	1,600,000
Nonmajor governmental funds	<u>830,000</u>

<b>Total</b>	<b><u>\$ 7,569,000</u></b>
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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. Transfers from the general fund were to subsidize other programs. Transfers from the municipal income tax fund were to distribute the City's income tax collections.

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 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 2005 represent the collection of 2004 taxes. For 2005, real property taxes were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date. These taxes will be collected in and are intended to finance 2006 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, 2004, on the assessed values as of December 31, 2003, 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% 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 2005 (other than public utility property) represent the collection of 2004 taxes. For 2005, tangible personal property taxes were levied after October 1, 2004, on the true value as of December 31, 2004. These taxes will be collected in and are intended to finance 2005 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 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, 2005. 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 2005 operations.

The full tax rate for all City operations for the year ended December 31, 2005, was \$3.20 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2005 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real property	\$ 227,116,290
Public utility	9,995,450
Tangible personal property	<u>51,098,445</u>
Total assessed value	<u>\$ 288,210,185</u>

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 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 \$7,978,051 in 2005.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2005, consisted of taxes, accounts (billings for user charged services), loans, and intergovernmental receivables arising from grants, entitlements, and 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, 2005, as well as intended to finance fiscal 2005 operations.

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

<u>Receivables:</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Income taxes	\$ 2,121,472	
Property and other local taxes	949,639	
Accounts	93,027	\$ 900,211
Loans	353,991	
Due from other governments	939,370	

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.

**NOTE 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 2005, there were loans to five businesses with a total principal balance of \$353,991.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005, was as follows:

<b><u>Governmental Activities:</u></b>	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 798,709			\$ 798,709
Construction in progress	<u>531,636</u>	<u>\$ 3,193,141</u>	<u>\$ (356,046)</u>	<u>3,368,731</u>
Total capital assets, not being depreciated	<u>1,330,345</u>	<u>3,193,141</u>	<u>(356,046)</u>	<u>4,167,440</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,266,787	62,984		2,329,771
Buildings and improvements	10,643,187	74,141	(67,900)	10,649,428
Machinery and equipment	4,039,215	151,518	(110,470)	4,080,263
Infrastructure	<u>16,822,145</u>	<u>677,578</u>	<u>-</u>	<u>17,499,723</u>
Total capital assets, being depreciated	<u>33,771,334</u>	<u>966,221</u>	<u>(178,370)</u>	<u>34,559,185</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(382,297)	(89,857)		(472,154)
Buildings and improvements	(2,535,959)	(298,405)	66,831	(2,767,533)
Machinery and equipment	(2,595,366)	(288,095)	108,552	(2,774,909)
Infrastructure	<u>(7,025,228)</u>	<u>(677,239)</u>	<u>-</u>	<u>(7,702,467)</u>
Total accumulated depreciation	<u>(12,538,850)</u>	<u>(1,353,596)</u>	<u>175,383</u>	<u>(13,717,063)</u>
Total capital assets, being depreciated, net	<u>21,232,484</u>	<u>(387,375)</u>	<u>(2,987)</u>	<u>20,842,122</u>
Governmental activities capital assets, net	<u>\$ 22,562,829</u>	<u>\$ 2,805,766</u>	<u>\$ (359,033)</u>	<u>\$ 25,009,562</u>

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 10 - CAPITAL ASSETS – (Continued)**

<b><u>Business-Type Activities:</u></b>	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 899,291		\$ (400)	\$ 898,891
Construction in progress	<u>8,024,650</u>	<u>\$ 11,131,158</u>	<u>(917,063)</u>	<u>18,238,745</u>
Total capital assets, not being depreciated	<u>8,923,941</u>	<u>11,131,158</u>	<u>(917,463)</u>	<u>19,137,636</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	289,342	590,337		879,679
Buildings and improvements	23,077,607	36,567	(222,129)	22,892,045
Machinery and equipment	5,492,179	280,296	(174,101)	5,598,374
Infrastructure	<u>14,043,899</u>	<u>717,733</u>	<u>-</u>	<u>14,761,632</u>
Total capital assets, being depreciated	<u>42,903,027</u>	<u>1,624,933</u>	<u>(396,230)</u>	<u>44,131,730</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(87,881)	(15,594)		(103,475)
Buildings and improvements	(9,476,862)	(616,877)	150,251	(9,943,488)
Machinery and equipment	(3,574,804)	(254,732)	118,221	(3,711,315)
Infrastructure	<u>(4,580,544)</u>	<u>(320,485)</u>	<u>-</u>	<u>(4,901,029)</u>
Total accumulated depreciation	<u>(17,720,091)</u>	<u>(1,207,688)</u>	<u>268,472</u>	<u>(18,659,307)</u>
Total capital assets, being depreciated, net	<u>25,182,936</u>	<u>417,245</u>	<u>(127,758)</u>	<u>25,472,423</u>
Governmental activities capital assets, net	<u>\$ 34,106,877</u>	<u>\$ 11,548,403</u>	<u>\$ (1,045,221)</u>	<u>\$ 44,610,059</u>

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 10 - CAPITAL ASSETS – (Continued)**

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

**Governmental Activities:**

General government	\$	73,923
Security of persons and property		141,394
Transportation		769,525
Leisure time activities		351,443
Economic development		<u>17,311</u>
 Total depreciation expense		 <u>\$ 1,353,596</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. The City's long term obligations at December 31, 2005, were as follows:

	Balance			Balance	Amounts
<b><u>Governmental Activities:</u></b>	<u>12/31/2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/2005</u>	<u>Due Within</u>
					<u>One Year</u>
<u>General Obligation Bonds</u>					
Community Center	\$ 3,935,000		\$ (190,000)	\$ 3,745,000	\$ 195,000
<u>Pension Liability</u>					
Police and Fire Pension	833,578		(13,774)	819,804	14,365
<u>Other Long-Term Obligations</u>					
Compensated Absences	<u>648,240</u>	<u>\$ 90,471</u>	<u>(60,959)</u>	<u>677,752</u>	<u>43,903</u>
Total Long-Term Obligations	<u>\$ 5,416,818</u>	<u>\$ 90,471</u>	<u>\$ (264,733)</u>	<u>\$ 5,242,556</u>	<u>\$ 253,268</u>

General Obligation Bonds

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

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)**

<b><u>Business-Type Activities:</u></b>	<u>Balance</u> <u>12/31/2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2005</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<u>General Obligation Bonds</u>					
Water - series 2003	\$ 5,560,000		\$ (200,000)	\$ 5,360,000	\$ 200,000
Water - series 2003	2,460,000		(95,000)	2,365,000	95,000
Water - series 2003	2,290,000		(80,000)	2,210,000	85,000
Sewer - series 2003	<u>1,225,000</u>	<u>-</u>	<u>(405,000)</u>	<u>820,000</u>	<u>405,000</u>
Total	<u>11,535,000</u>	<u>-</u>	<u>(780,000)</u>	<u>10,755,000</u>	<u>785,000</u>
<u>OPWC Loans</u>					
Sewer - series 2001	175,652		(10,332)	165,320	10,332
Sewer - series 2004	<u>54,159</u>	<u>\$123,681</u>	<u>(4,446)</u>	<u>173,394</u>	<u>8,892</u>
Total	<u>229,811</u>	<u>123,681</u>	<u>(14,778)</u>	<u>338,714</u>	<u>19,224</u>
<u>Other Long-Term Obligations</u>					
Compensated Absences	<u>346,317</u>	<u>82,750</u>	<u>(46,310)</u>	<u>382,757</u>	<u>41,566</u>
Total Long-Term Obligations	<u>\$ 12,111,128</u>	<u>\$206,431</u>	<u>\$ (841,088)</u>	<u>\$ 11,476,471</u>	<u>\$ 845,790</u>

General Obligation Bonds: Water - series 2003

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 2.00 - 5.00 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid out of 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, 2005 is \$4,905,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

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

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)**

General Obligation Bonds: Water - series 2003

The general obligation bonds were issued in 2003 for \$2,530,000, and carry an interest rate of 2.00 - 5.00 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: Water - series 2003

The general obligation bonds were originally issued in 1993 for \$2,745,000, were reissued in 2003 for \$2,350,000, and carry an interest rate of 2.00 - 5.00 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 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, 2005 is \$2,200,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

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

General Obligation Bonds: Sewer - series 2003

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 2.00 - 2.25%. 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, 2005 is \$805,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

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

OPWC Loans

The OPWC loans were granted from the Ohio Public Works Commission in 2001 and 2004 and do not carry an interest rate. The OPWC loans are an obligation of the sewer fund, and the principal payments are paid out of the sewer fund. The OPWC loan proceeds were used for improvements to the sewer plant and facilities.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)**

B. Principal and interest requirements to retire the general obligation bonds, the OPWC loans, and the police and fire pension liability as of December 31, 2005, are as follows:

Year	General Obligation Bonds - Community Center			Pension Liability - Police and Fire Pension		
	Principal	Interest	Total	Principal	Interest	Total
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	225,000	148,363	373,363	16,297	32,759	49,056
2010	235,000	138,687	373,687	16,997	32,059	49,056
2011 - 2015	1,340,000	521,292	1,861,292	96,585	148,695	245,280
2016 - 2020	1,330,000	164,900	1,494,900	119,187	126,093	245,280
2021 - 2025				147,079	98,201	245,280
2026 - 2029				142,080	54,144	196,224
2030 - 2035	-	-	-	236,606	30,999	267,605
Total	<u>\$3,745,000</u>	<u>\$1,477,189</u>	<u>\$5,222,189</u>	<u>\$ 819,804</u>	<u>\$ 625,145</u>	<u>\$1,444,949</u>

Year	General Obligation Bonds - Water - series 2003			General Obligation Bonds - Water - series 2003		
	Principal	Interest	Total	Principal	Interest	Total
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	220,000	206,784	426,784	105,000	89,431	194,431
2010	225,000	199,634	424,634	105,000	86,019	191,019
2011 - 2015	1,250,000	863,943	2,113,943	600,000	366,268	966,268
2016 - 2020	1,535,000	584,916	2,119,916	735,000	232,314	967,314
2021 - 2024	<u>1,505,000</u>	<u>193,000</u>	<u>1,698,000</u>	<u>530,000</u>	<u>53,751</u>	<u>583,751</u>
Total	<u>\$5,360,000</u>	<u>\$2,701,929</u>	<u>\$8,061,929</u>	<u>\$2,365,000</u>	<u>\$1,111,489</u>	<u>\$3,476,489</u>

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)**

Year	General Obligation Bonds - Water - series 2003			General Obligation Bonds - Sewer - series 2003		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 85,000	\$ 91,692	\$ 176,692	\$ 405,000	\$ 26,550	\$ 431,550
2007	85,000	89,780	174,780	415,000	9,337	424,337
2008	90,000	87,868	177,868			
2009	90,000	85,168	175,168			
2010	90,000	82,242	172,242			
2011 - 2015	520,000	355,937	875,937			
2016 - 2020	630,000	240,514	870,514			
2021 - 2024	<u>620,000</u>	<u>79,250</u>	<u>699,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$2,210,000</u>	<u>\$1,112,451</u>	<u>\$3,322,451</u>	<u>\$ 820,000</u>	<u>\$ 35,887</u>	<u>\$ 855,887</u>

Year	OPWC Loans - Sewer - series 2001			OPWC Loans - Sewer - series 2004		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 10,332	\$ -	\$ 10,332	\$ 8,892	\$ -	\$ 8,892
2007	10,333		10,333	8,892		8,892
2008	10,332		10,332	8,892		8,892
2009	10,333		10,333	8,892		8,892
2010	10,332		10,332	8,892		8,892
2011 - 2015	51,663		51,663	44,460		44,460
2016 - 2020	51,662		51,662	44,460		44,460
2021 - 2025	<u>10,333</u>	<u>-</u>	<u>10,333</u>	<u>40,014</u>	<u>-</u>	<u>40,014</u>
Total	<u>\$ 165,320</u>	<u>\$ -</u>	<u>\$ 165,320</u>	<u>\$ 173,394</u>	<u>\$ -</u>	<u>\$ 173,394</u>

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, 2005, the City's total debt margin was \$29,510,739, and the unvoted debt margin was \$13,067,810; both amounts include available funds of \$163,078.

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**NOTE 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  $33\frac{1}{3}$  or  $33\frac{1}{2}$  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 the employee, accrued vacation is paid for time the employees have earned but not yet used.

As of December 31, 2005, the governmental activities liability for compensated absences was \$677,752, the business-type activities liability for compensated absences was \$382,757, and the City's total liability for compensated absences was \$1,060,509.

**NOTE 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.

**Risk Pool Membership**

The Government belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

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

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

**CITY OF FREMONT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 13 - RISK MANAGEMENT – (Continued)**

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005.

	<b><u>2005</u></b>
Assets	\$8,219,430
Liabilities	<u>(2,748,639)</u>
Members' Equity	<u>\$5,470,791</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

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

**NOTE 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 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% 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, 2005, 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 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS – (Continued)**

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003, were \$625,048, \$599,924, and \$592,456, respectively; 100% has been contributed for 2005, 2004, and 2003. There is no unpaid contribution for 2005, and there is no liability as of December 31, 2005.

**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 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 \$333,116 and \$295,301 for the year ended December 31, 2005, \$334,610 and \$282,790 for the year ended December 31, 2004, and \$318,862 and \$277,031 for the year ended December 31, 2003. 72.96 percent has been contributed for 2005 and 100% for 2004 and 2003. \$169,897, representing the unpaid contributions for 2005, is recorded as a liability within the respective funds.

**NOTE 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 recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.70 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)**

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, 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 (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 percent and 6.00 percent annually for the next eight years and 4.00 percent after eight years.

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 376,109, as of December 31, 2005. The number of active participants for both plans used in the December 31, 2004, actuarial valuation was 355,287. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$184,516. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**B. Ohio Police and Fire Pension Fund**

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides 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 2005. 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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)**

The City's actual contributions for 2005 that were used to fund postemployment benefits was \$132,247 for police and \$95,382 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available), was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), was 13,812 for police and 10,528 for firefighters.

**NOTE 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 and municipal income tax funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. 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	\$ 7,086	\$ 469,543
Net adjustment for revenue accruals	8,224	11,135
Net adjustment for expenditure accruals	(38,531)	(2,517)
Net adjustment for other financing sources/(uses)	(12,050)	
Adjustment for encumbrances	67,546	4,382
GAAP basis	\$ 32,275	\$ 482,543

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**NOTE 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2005.

**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.

**CITY OF FREMONT  
SANDUSKY COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grants/State Program	A-F-03-123-1	14.228	\$ 6,219
	A-F-04-123-1	14.228	97,102
	A-C-03-123-1	14.228	<u>90,862</u>
			194,183
<i>Passed Through Ohio Department of Development</i>			
HOME Investment Partnership Program	A-C-03-123-2	14.239	<u>138,638</u>
Total U.S. Department of Housing and Urban Development			<u><b>332,821</b></u>
<b>U.S. Department of Justice</b>			
Direct Assistance			
Local Law Enforcement Block Grant Program	2003LBBX1199	16.592	<u>3,340</u>
Edward Byrne Memorial Justice Assistance Grant Program	2005DJBX1188	16.738	<u>210</u>
Total U.S. Department of Justice			<u><b>3,550</b></u>
<b>U.S. Department of Transportation</b>			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	05N001	20.205	<u>1,056,000</u>
Total U.S. Department of Transportation			<u><b>1,056,000</b></u>
<b>Federal Emergency Management Agency</b>			
<i>Passed Through Ohio Emergency Management Agency</i>			
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	EM-3198-OH	97.036	19,991
	FEMA-EM-3198-OH	97.036	<u>3,204</u>
Total Federal Emergency Management Agency			<u><b>23,195</b></u>
<b>Total Federal Awards Expenditures</b>			<u><u><b>\$1,415,566</b></u></u>

*The accompanying notes are an integral part of this schedule.*

**CITY OF FREMONT  
SANDUSKY COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED DECEMBER 31, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS**

The City has established a revolving loan program to provide low-interest loans to businesses that are creating jobs and meet other program requirements. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgage on the property. At December 31, 2005, the gross amount of loans outstanding under this program was \$353,991.

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
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 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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 25, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated October 25, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated October 25, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

October 25, 2006



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the City Council:

#### Compliance

We have audited the compliance of the City of Fremont, Sandusky County (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended December 31, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Fremont complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2005.

#### Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

October 25, 2006

**CITY OF FREMONT  
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Highway Planning and Construction CFDA # 20.205
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None

**CITY OF FREMONT  
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Material Weakness for lack of completeness over income tax receipts	Yes	
2004-002	Ohio Revised Code §5705.39 appropriations not filed with county auditor	Yes	



**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CITY OF FREMONT**

**SANDUSKY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 30, 2006**