



Mary Taylor, CPA
Auditor of State

**CITY OF FREMONT
SANDUSKY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	19
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet - Governmental Funds	22
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	23
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	26
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) - Municipal Income Tax Fund	27
Statement of Net Assets - Proprietary Funds.....	28
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	29
Statement of Cash Flows - Proprietary Funds	30
Statement of Fiduciary Net Assets - Fiduciary Fund.....	31
Notes to the Financial Statements	32
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	63
Schedule of Findings.....	65

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Mary Taylor, CPA

Auditor of State

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, 2006, 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, Ohio, as of December 31, 2006, 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 January 10, 2008, 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.

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.

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

Mary Taylor, CPA
Auditor of State

January 10, 2008

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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, 2006. 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 2006 are as follows:

- The total net assets of the City increased \$988,765 or 1.30% over 2005. Net assets of governmental activities increased \$65,071 or 0.19% over 2005 and net assets of business-type activities increased \$923,694 or 2.24% over 2005.
- General revenues accounted for \$10,983,361 or 83.69% of total governmental activities revenue. Program specific revenues accounted for \$2,140,426 or 16.31% of total governmental activities revenue.
- The City had \$11,947,335 in expenses related to governmental activities; \$2,140,426 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$9,806,909 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$10,983,361.
- The general fund had revenues and other financing sources of \$8,084,848 in 2006. This represents an increase of \$575,141 or 7.66% from 2005. The expenditures and other financing uses of the general fund, which totaled \$7,925,477 in 2006, increased \$448,045 or 5.99% from 2005. The net increase in fund balance for the general fund was \$159,371 or 5.87%.
- The municipal income tax fund had revenues of \$7,883,423 in 2006. The expenditures of the municipal income tax fund totaled \$495,599 in 2006. The municipal income tax fund had transfers out to other funds in the amount of \$7,605,000. The net decrease in fund balance for the municipal income tax fund was \$217,176.
- The capital improvement fund had revenues and other financing sources of \$2,284,395 in 2006. The expenditures of the capital improvement fund totaled \$1,888,156 in 2006. The net increase in fund balance for the capital improvement fund was \$396,239.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2006 by \$923,694. This increase in net assets was due primarily to transfers in from governmental funds.
- In the general fund, actual revenues and other financing sources were \$271,578 higher than the final budget revenues and other financing sources and actual expenditures were \$440,785 less than the final budget expenditures. These positive variances are the result of the City's conservative budgeting. Budgeted expenditures increased \$48,500 from the original budget to the final budget, primarily due to an increase in community environment expenditures.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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 2006?" 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, 2006
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, 2006
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 2006 and 2005:

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		2006	2005
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>Total</u>	<u>Total</u>
<u>Assets</u>						
Current and other assets	\$ 16,611,747	\$ 16,279,645	\$ 6,680,002	\$ 9,031,541	\$ 23,291,749	\$ 25,311,186
Capital assets	<u>24,877,079</u>	<u>25,009,562</u>	<u>47,019,691</u>	<u>44,610,059</u>	<u>71,896,770</u>	<u>69,619,621</u>
Total assets	<u>41,488,826</u>	<u>41,289,207</u>	<u>53,699,693</u>	<u>53,641,600</u>	<u>95,188,519</u>	<u>94,930,807</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	5,130,027	5,242,556	10,700,933	11,476,471	15,830,960	16,719,027
Other liabilities	<u>1,539,007</u>	<u>1,291,930</u>	<u>815,039</u>	<u>905,102</u>	<u>2,354,046</u>	<u>2,197,032</u>
Total liabilities	<u>6,669,034</u>	<u>6,534,486</u>	<u>11,515,972</u>	<u>12,381,573</u>	<u>18,185,006</u>	<u>18,916,059</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	21,327,079	21,264,562	37,134,109	33,516,345	58,461,188	54,780,907
Restricted	3,428,803	2,700,043			3,428,803	2,700,043
Unrestricted	<u>10,063,910</u>	<u>10,790,116</u>	<u>5,049,612</u>	<u>7,743,682</u>	<u>15,113,522</u>	<u>18,533,798</u>
Total net assets	<u>\$ 34,819,792</u>	<u>\$ 34,754,721</u>	<u>\$ 42,183,721</u>	<u>\$ 41,260,027</u>	<u>\$ 77,003,513</u>	<u>\$ 76,014,748</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$77,003,513. At year-end, net assets were \$34,819,792 and \$42,183,721 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, 2006
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 75.53% 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, 2006, were \$21,327,079 and \$37,134,109 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, 2006, 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, \$3,428,803 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 \$10,063,910 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The table below shows the changes in net assets for fiscal years 2006 and 2005.

	Change in Net Assets					
	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	2006 Total	2005 Total
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,179,706	\$ 949,010	\$ 7,017,308	\$ 6,980,968	\$ 8,197,014	\$ 7,929,978
Operating grants and contributions	862,431	1,383,118			862,431	1,383,118
Capital grants and contributions	<u>98,289</u>	<u>1,258,856</u>	<u>427,038</u>		<u>525,327</u>	<u>1,258,856</u>
Total program revenues	<u>2,140,426</u>	<u>3,590,984</u>	<u>7,444,346</u>	<u>6,980,968</u>	<u>9,584,772</u>	<u>10,571,952</u>
General revenues:						
Property taxes	1,140,398	1,077,417			1,140,398	1,077,417
Income taxes	7,468,594	7,934,550			7,468,594	7,934,550
Unrestricted grants and entitlements	1,205,859	1,019,003			1,205,859	1,019,003
Investment earnings	792,926	499,241	96,144	242,891	889,070	742,132
Miscellaneous	<u>375,584</u>	<u>292,788</u>	<u>98,922</u>		<u>474,506</u>	<u>292,788</u>
Total general revenues	<u>10,983,361</u>	<u>10,822,999</u>	<u>195,066</u>	<u>242,891</u>	<u>11,178,427</u>	<u>11,065,890</u>
Total revenues	<u>13,123,787</u>	<u>14,413,983</u>	<u>7,639,412</u>	<u>7,223,859</u>	<u>20,763,199</u>	<u>21,637,842</u>
Expenses:						
General government	2,411,585	2,221,957			2,411,585	2,221,957
Security of persons and property	5,122,066	5,295,143			5,122,066	5,295,143
Public health and welfare	17,779	12,084			17,779	12,084
Transportation	1,716,735	1,415,826			1,716,735	1,415,826
Community environment	306,448	342,630			306,448	342,630
Leisure time activity	1,927,287	1,731,896			1,927,287	1,731,896
Economic development	188,343	234,980			188,343	234,980
Other	1,159	87,719			1,159	87,719
Interest and fiscal charges	255,933	213,022			255,933	213,022
Water			3,908,604	3,878,269	3,908,604	3,878,269
Sewer			<u>3,918,495</u>	<u>3,314,946</u>	<u>3,918,495</u>	<u>3,314,946</u>
Total expenses	<u>11,947,335</u>	<u>11,555,257</u>	<u>7,827,099</u>	<u>7,193,215</u>	<u>19,774,434</u>	<u>18,748,472</u>
Increase in net assets before transfers	1,176,452	2,858,726	(187,687)	30,644	988,765	2,889,370
Transfers	<u>(1,111,381)</u>	<u>(627,895)</u>	<u>1,111,381</u>	<u>627,895</u>		
Increase in net assets	65,071	2,230,831	923,694	658,539	988,765	2,889,370
Net assets at beginning 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>
Net assets at end of year	<u>\$ 34,819,792</u>	<u>\$ 34,754,721</u>	<u>\$ 42,183,721</u>	<u>\$ 41,260,027</u>	<u>\$ 77,003,513</u>	<u>\$ 76,014,748</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Governmental Activities

Governmental activities net assets increased \$65,071 in 2006. This increase is a result of decreased revenues still outpacing increased expenses.

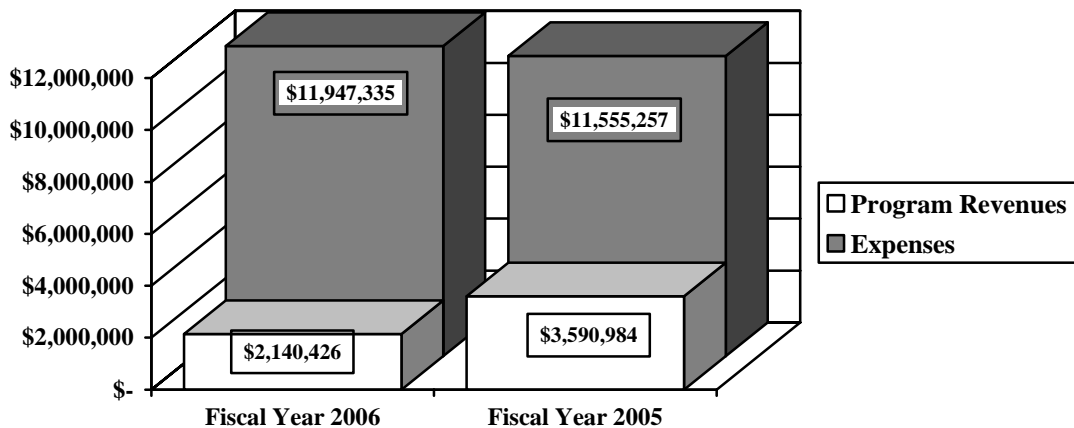
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,122,066 of the total expenses of the City. These expenses were partially funded by \$387,725 in direct charges to users of the services. General government expenses totaled \$2,411,585. General government expenses were partially funded by \$121,232 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$862,431 in operating grants and contributions and \$98,289 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$98,289 subsidized transportation programs. Of the total operating grants and contributions, \$675,777 subsidized transportation programs, \$176,570 subsidized community environment programs and \$6,237 subsidized security of persons and property activities.

General revenues totaled \$10,983,361, and amounted to 83.69% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,608,992. 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 \$1,205,859.

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.

Governmental Activities – Program Revenues vs. Total Expenses



**CITY OF FREMONT
SANDUSKY COUNTY**

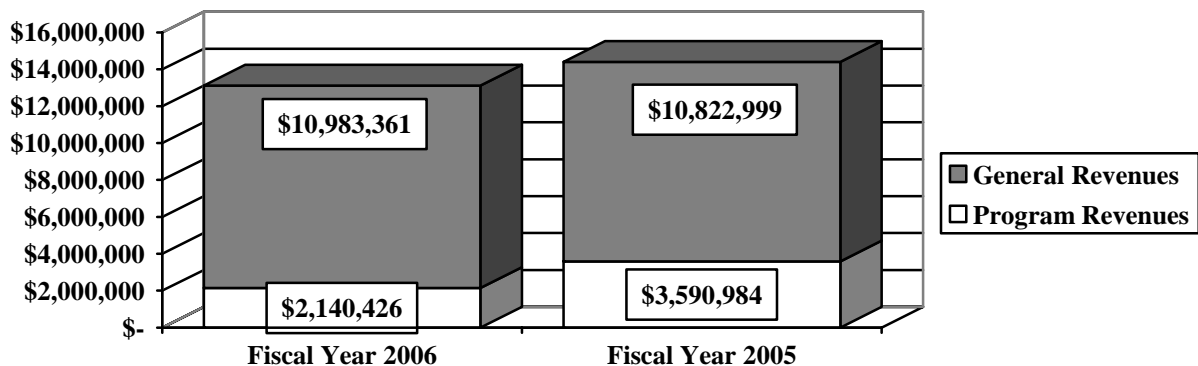
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program Expenses:				
General government	\$ 2,411,585	\$ 2,286,506	\$ 2,221,957	\$ 2,073,527
Security of persons and property	5,122,066	4,728,104	5,295,143	4,994,580
Public health and welfare	17,779	17,779	12,084	11,419
Transportation	1,716,735	805,043	1,415,826	309,311
Community environment	306,448	118,175	342,630	107,839
Leisure time activity	1,927,287	1,405,967	1,731,896	155,147
Economic development	188,343	188,243	234,980	112,516
Other	1,159	1,159	87,719	(13,088)
Interest and fiscal charges	255,933	255,933	213,022	213,022
Total	\$ 11,947,335	\$ 9,806,909	\$ 11,555,257	\$ 7,964,273

The dependence upon general revenues for governmental activities is apparent, with 82.08% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



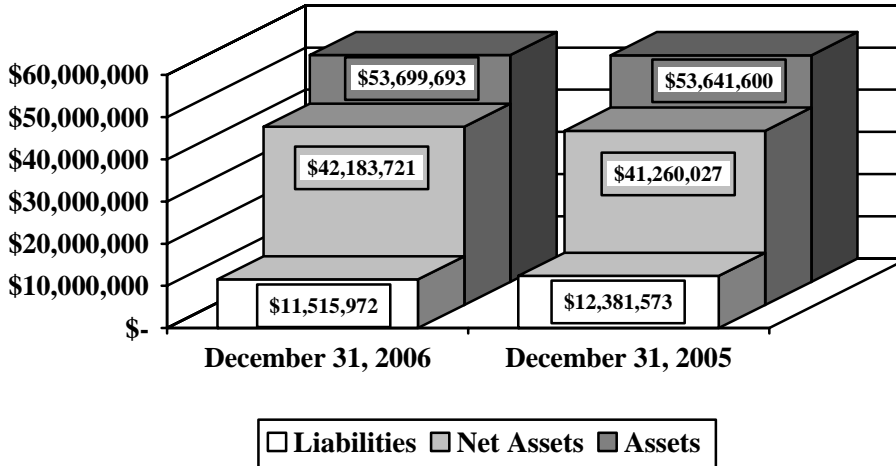
Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$7,444,346, general revenues of \$195,066, transfers in of \$1,111,381 and expenses of \$7,827,099 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

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.

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 \$14,186,460 which is \$544,698 above last year's total of \$13,641,762. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	Fund Balances 12/31/06	Fund Balances 12/31/05	Increase (Decrease)
Major funds:			
General	\$ 2,874,693	\$ 2,715,322	\$ 159,371
Municipal income tax	4,730,845	4,948,021	(217,176)
Capital improvement	1,579,743	1,183,504	396,239
Other nonmajor governmental funds	5,001,179	4,794,915	206,264
Total	\$ 14,186,460	\$ 13,641,762	\$ 544,698

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

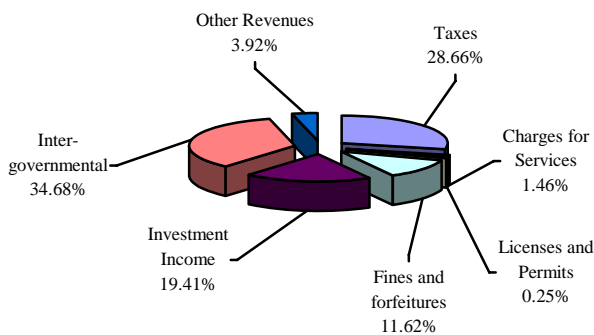
General Fund

The City's general fund balance increased \$159,371, primarily due to an increase in transfers in from the Municipal Income Tax Fund. The table that follows assists in illustrating the revenues of the general fund.

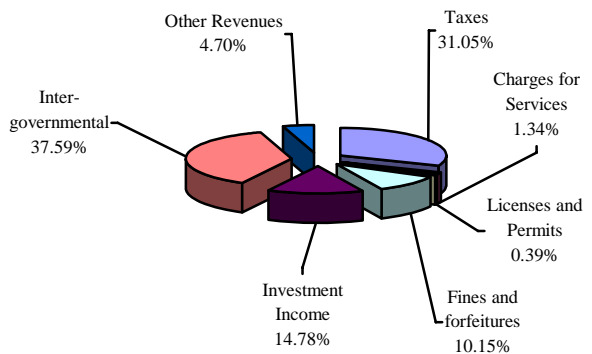
	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 952,975	\$ 903,461	5.48 %
Charges for services	48,512	38,958	24.52 %
Licenses and permits	8,199	11,433	(28.29) %
Fines and forfeitures	386,356	295,236	30.86 %
Intergovernmental	1,153,315	1,093,605	5.46 %
Investment income	645,198	430,115	50.01 %
Other	<u>130,293</u>	<u>136,899</u>	(4.83) %
Total	<u>\$ 3,324,848</u>	<u>\$ 2,909,707</u>	14.27 %

Tax revenue represents 28.66% of all general fund revenue. Tax revenue increased slightly by 5.48% over the prior year. The increase in taxes revenue is due to an increase in the collections of real and other taxes. The increase in investment income is due to aggressive management of the City's investment portfolio. Fines and forfeitures increased by 30.86% over the prior year due to an increase in the receivable. All other revenue remained comparable to 2005.

Revenues – Fiscal Year 2006



Revenues – Fiscal Year 2005



**CITY OF FREMONT
SANDUSKY COUNTY**

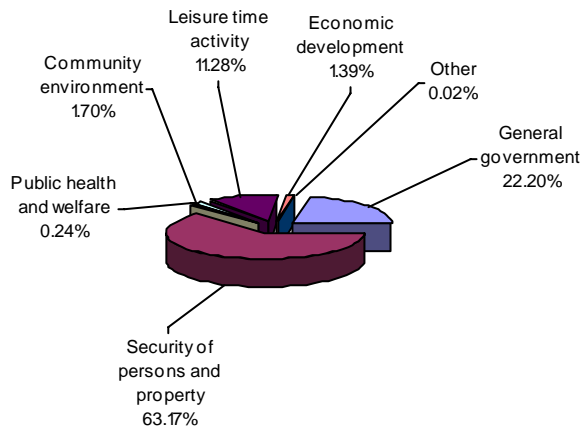
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

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

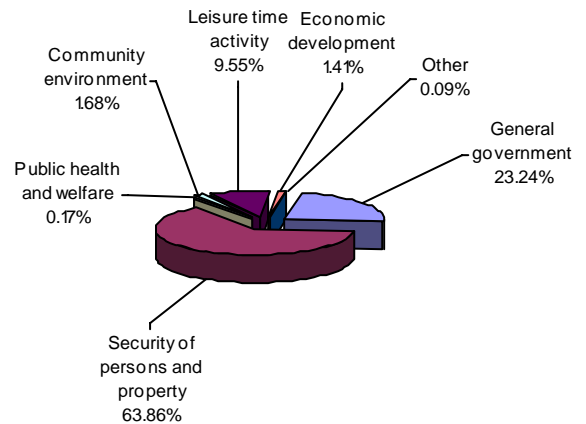
	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 1,633,249	\$ 1,612,381	1.29 %
Security of persons and property	4,646,658	4,430,398	4.88 %
Public health and welfare	17,887	11,999	49.07 %
Community environment	124,741	116,331	7.23 %
Leisure time activity	829,797	662,834	25.19 %
Economic development	101,986	98,133	3.93 %
Other	<u>1,159</u>	<u>6,356</u>	(81.77) %
Total	<u>\$ 7,355,477</u>	<u>\$ 6,938,432</u>	6.01 %

The most significant decrease was in the area of other programs. These decreases are primarily due to the control of expenditures by the City. All other expenditures remained comparable to 2005. The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services.

Expenditures - Fiscal Year 2006



Expenditures - Fiscal Year 2005



Municipal Income Tax Fund

The municipal income tax fund had revenues of \$7,883,423 in 2006. The expenditures of the municipal income tax fund totaled \$495,599 in 2006. The municipal income tax fund had transfers out to other funds in the amount of \$7,605,000. The net decrease in fund balance for the municipal income tax fund was \$217,176.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Capital Improvement Fund

The capital improvement fund had revenues and other financing sources of \$2,284,395 in 2006. The expenditures of the capital improvement fund totaled \$1,888,156 in 2006. The net increase in fund balance for the capital improvement fund was \$396,239.

Budgeting Highlights

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

Budgetary information is presented for the general fund and municipal income tax fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures, which increased \$48,500 from \$8,324,340 to \$8,372,840. Actual revenues and other financing sources of \$8,022,478 exceeded final budgeted revenues and other financing sources by \$271,578. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$440,785 lower than the final budgeted amounts.

In the municipal income tax fund, one of the most significant changes was between the actual revenues of \$7,876,226 being lower than final budgeted revenues by \$276,874. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$40,829 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 2006, the City had \$71,896,770 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress (CIP). Of this total, \$24,877,079 was reported in governmental activities and \$47,019,691 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

**CITY OF FREMONT
SANDUSKY COUNTY**

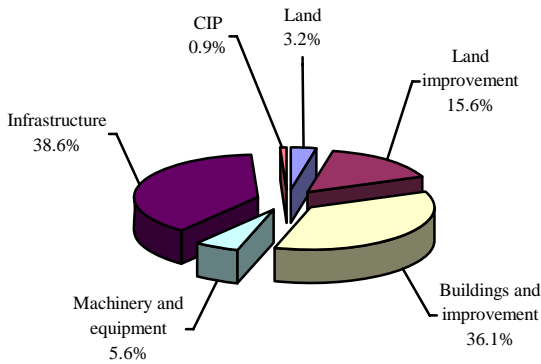
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

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

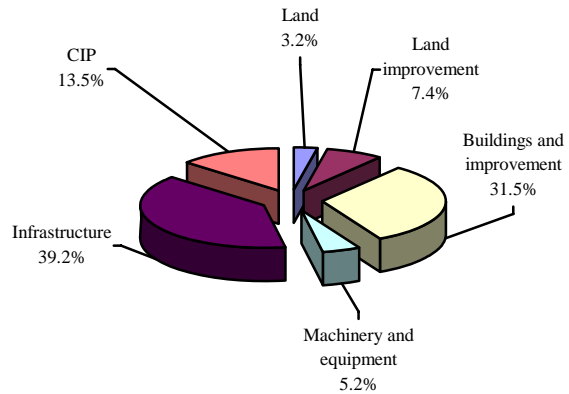
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 798,709	\$ 798,709	\$ 898,891	\$ 898,891	\$ 1,697,600	\$ 1,697,600
Land improvements	3,870,062	1,857,617	1,420,768	776,204	5,290,830	2,633,821
Buildings and improvements	8,971,059	7,881,895	26,080,117	12,948,557	35,051,176	20,830,452
Machinery and equipment	1,392,433	1,305,354	3,670,259	1,887,059	5,062,692	3,192,413
Infrastructure	9,628,535	9,797,256	14,416,282	9,860,603	24,044,817	19,657,859
Construction in progress	216,281	3,368,731	533,374	18,238,745	749,655	21,607,476
Totals	\$ 24,877,079	\$ 25,009,562	\$ 47,019,691	\$ 44,610,059	\$ 71,896,770	\$ 69,619,621

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

Capital Assets - Governmental Activities 2006



Capital Assets - Governmental Activities 2005



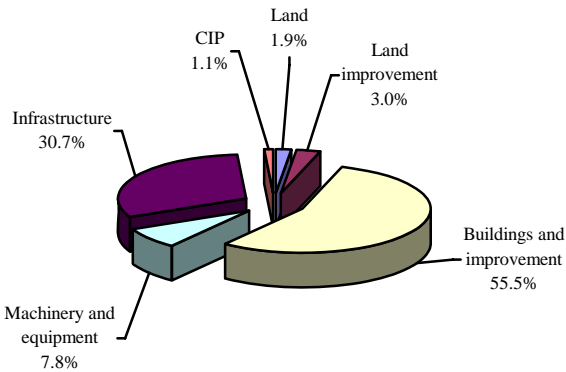
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 38.6% of the City's total governmental capital assets.

**CITY OF FREMONT
SANDUSKY COUNTY**

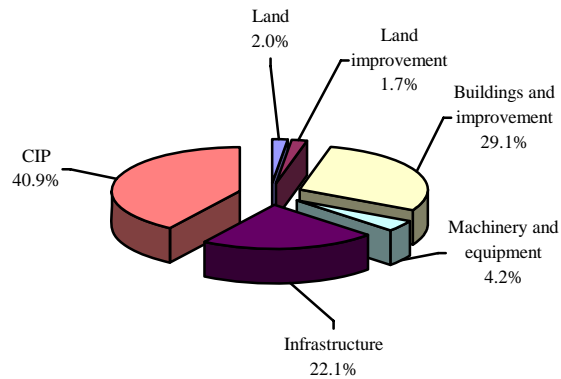
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.

Capital Assets - Business-Type Activities 2006



Capital Assets - Business-Type Activities 2005



The City's second largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 30.7% of the City's total business-type capital assets.

Debt Administration

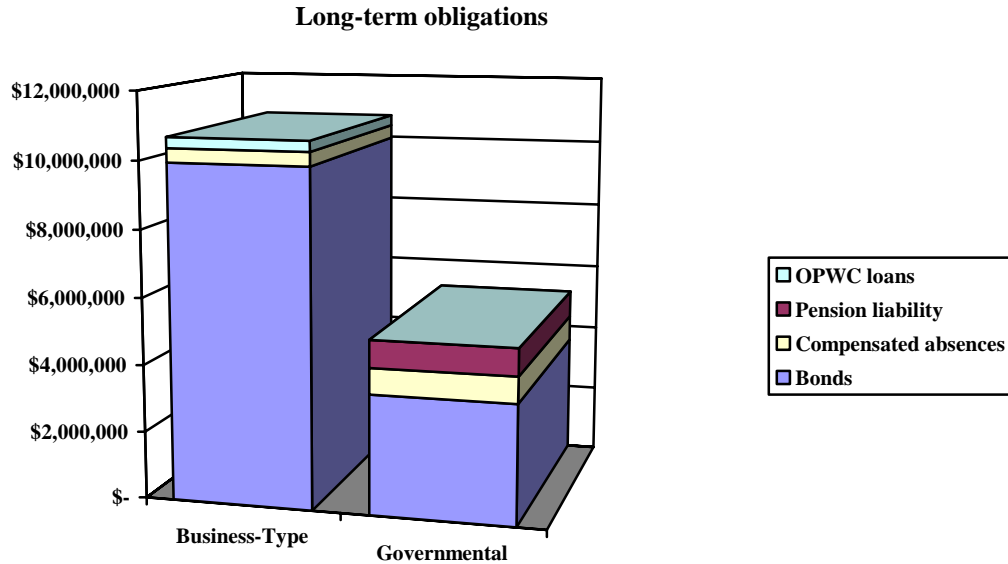
The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Compensated absences	\$ 774,588	\$ 677,752
General obligation bonds	3,550,000	3,745,000
Pension liability	<u>805,439</u>	<u>819,804</u>
Total long-term obligations	<u>\$ 5,130,027</u>	<u>\$ 5,242,556</u>
	Business-type Activities	
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 9,970,000	\$ 10,755,000
OPWC loans	319,490	338,714
Compensated absences	<u>411,443</u>	<u>382,757</u>
Total long-term obligations	<u>\$ 10,700,933</u>	<u>\$ 11,476,471</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
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 were added to their 65-employee workforce. Century Die Co. expanded 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 2006. Additional employees were added to the existing 220 people that currently work at the plastics company. Kaufman Engineered Systems, Inc. moved to Fremont into a 30,000 sq. ft. building. A total of 15 people are 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 and was completed in August, 2007. The \$14.8 million ODOT project consists of widening the existing two-lane road to four lanes. Within the SR 53 corridor, a new 6,060 sq. ft. Fricker's restaurant was constructed. The restaurant seats 208 guests and opened 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, 2006
UNAUDITED
(Continued)**

Pinnacle Drive Office Park is a new addition to Fremont that provides sites for the construction of professional buildings. Pinnacle Financial Planning was constructed and a doctor's office is under construction to be completed in early 2008. Other prospects are eyeing development in the 10-acre office park.

In October 2005, Memorial Hospital announced plans for a physical and occupational therapy expansion project. Groundbreaking for the Herbert-Perna Center for Physical Health took place on September 22, 2006. One year later, the hospital celebrated with a ribbon cutting ceremony, garden dedication and open house at the \$6.3 million facility.

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. Several units have been completed and are being sold during 2007.

A new 126,000 sq. ft. manufacturing facility is started being constructed by KF Ventures in Fremont North Industrial Park. This facility will be made available to prospective businesses and was granted real property tax abatement for 15 years.

Automatic Fire Protection moved its business into Fremont in 2007. The company renovated the old McNaughton-McKay building on Jackson Street.

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. John Lauer, City Auditor, City of Fremont, 323 South Front Street, Fremont, Ohio 43420-3037.

**CITY OF FREMONT
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 12,381,433	\$ 4,620,929	\$ 17,002,362
Cash with escrow agents		472,530	472,530
Receivables (net of allowances for uncollectibles):			
Income taxes	1,787,888		1,787,888
Property and other local taxes	965,829		965,829
Accounts	113,883	941,257	1,055,140
Loans	304,666		304,666
Due from other governments	950,175		950,175
Materials and supplies inventory	88,259	217,892	306,151
Deferred bond issuance costs		403,908	403,908
Internal balance	19,614	(19,614)	
Restricted assets:			
Equity in pooled cash and cash equivalents		43,100	43,100
Capital assets:			
Land and construction-in-progress	1,014,990	1,432,265	2,447,255
Depreciable capital assets, net	23,862,089	45,587,426	69,449,515
Total capital assets	24,877,079	47,019,691	71,896,770
Total assets	41,488,826	53,699,693	95,188,519
Liabilities:			
Accounts payable	146,496	134,500	280,996
Accrued wages and benefits	295,970	137,692	433,662
Pension obligation payable	182,935	8,643	191,578
Due to claimants	3,662		3,662
Retainage Payable		472,530	472,530
Accrued interest payable	56,362	18,574	74,936
Deferred revenue	853,582		853,582
Payable from restricted assets:			
Refundable deposits		43,100	43,100
Long-term liabilities:			
Due within one year	266,262	856,813	1,123,075
Due in more than one year	4,863,765	9,844,120	14,707,885
Total liabilities	6,669,034	11,515,972	18,185,006
Net assets:			
Invested in capital assets, net of related debt	21,327,079	37,134,109	58,461,188
Restricted for:			
Debt service	135,188		135,188
Transportation projects	1,467,912		1,467,912
Other purposes	1,825,703		1,825,703
Unrestricted	10,063,910	5,049,612	15,113,522
Total net assets	\$ 34,819,792	\$ 42,183,721	\$ 77,003,513

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 2,411,585	\$ 121,232	\$ 3,847	
Security of persons and property	5,122,066	387,725	6,237	
Public health and welfare	17,779			
Transportation	1,716,735	137,626	675,777	\$ 98,289
Community environment	306,448	11,703	176,570	
Leisure time activity	1,927,287	521,320		
Economic development	188,343	100		
Other	1,159			
Interest and fiscal charges	255,933			
Total governmental activities	11,947,335	1,179,706	862,431	98,289
Business-type Activities:				
Water	3,908,604	3,290,739		
Sewer	3,918,495	3,726,569		427,038
Total business-type activities	7,827,099	7,017,308		427,038
Total primary government	\$ 19,774,434	\$ 8,197,014	\$ 862,431	\$ 525,327

General Revenues:

Income taxes levied for:

 Special purposes

Property taxes levied for:

 General purposes

 Police pension

 Fire pension

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
\$ (2,286,506)		\$ (2,286,506)
(4,728,104)		(4,728,104)
(17,779)		(17,779)
(805,043)		(805,043)
(118,175)		(118,175)
(1,405,967)		(1,405,967)
(188,243)		(188,243)
(1,159)		(1,159)
(255,933)		(255,933)
<u>(9,806,909)</u>		<u>(9,806,909)</u>
	\$ (617,865)	(617,865)
	235,112	235,112
	<u>(382,753)</u>	<u>(382,753)</u>
<u>(9,806,909)</u>	<u>(382,753)</u>	<u>(10,189,662)</u>
7,468,594		7,468,594
958,808		958,808
90,795		90,795
90,795		90,795
1,205,859		1,205,859
792,926	96,144	889,070
375,584	98,922	474,506
<u>10,983,361</u>	<u>195,066</u>	<u>11,178,427</u>
<u>(1,111,381)</u>	<u>1,111,381</u>	
65,071	923,694	988,765
<u>34,754,721</u>	<u>41,260,027</u>	<u>76,014,748</u>
<u>\$ 34,819,792</u>	<u>\$ 42,183,721</u>	<u>\$ 77,003,513</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Municipal Income Tax</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 3,100,654	\$ 3,095,024	\$ 1,627,225	\$ 4,541,063	\$ 12,363,966
Receivables (net of allowance for uncollectibles):					
Income taxes		1,787,888			1,787,888
Property and other local taxes	784,735			181,094	965,829
Accounts	82,418	20,982		10,483	113,883
Loans				304,666	304,666
Due from other governments	559,260			390,915	950,175
Materials and supplies inventory				88,259	88,259
Total assets	<u>\$ 4,527,067</u>	<u>\$ 4,903,894</u>	<u>\$ 1,627,225</u>	<u>\$ 5,516,480</u>	<u>\$ 16,574,666</u>
Liabilities:					
Accounts payable	\$ 55,089	\$ 545	\$ 47,482	\$ 42,678	\$ 145,794
Accrued wages and benefits	255,407	5,279		32,882	293,568
Pension obligation payable	180,580	304		1,908	182,792
Due to claimants	3,662				3,662
Deferred revenue	1,157,636	166,921		437,833	1,762,390
Total liabilities	<u>1,652,374</u>	<u>173,049</u>	<u>47,482</u>	<u>515,301</u>	<u>2,388,206</u>
Fund balances:					
Reserved for encumbrances	11,261	4,131	403,409	567,222	986,023
Reserved for materials and supplies inventory				88,259	88,259
Reserved for loans				304,666	304,666
Reserved for unclaimed monies	3,662				3,662
Unreserved:					
Designated for workers compensation	339,027				339,027
Undesignated, reported in:					
General fund	2,520,743				2,520,743
Special revenue funds		4,726,714		3,519,859	8,246,573
Debt service funds				191,550	191,550
Capital projects funds			1,176,334	329,623	1,505,957
Total fund balances	<u>2,874,693</u>	<u>4,730,845</u>	<u>1,579,743</u>	<u>5,001,179</u>	<u>14,186,460</u>
Total liabilities and fund balances	<u>\$ 4,527,067</u>	<u>\$ 4,903,894</u>	<u>\$ 1,627,225</u>	<u>\$ 5,516,480</u>	<u>\$ 16,574,666</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total governmental fund balances		\$ 14,186,460
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		24,877,079
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income tax	\$ 166,921	
Property and other local taxes	64,295	
Intergovernmental	<u>677,592</u>	
Total		908,808
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.		14,220
An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.		19,614
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(56,362)
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	3,550,000	
Ohio Police and Fire pension obligation	805,439	
Compensated absences	<u>774,588</u>	
Total		<u>(5,130,027)</u>
Net assets of governmental activities		<u>\$ 34,819,792</u>

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, 2006

	<u>General</u>	<u>Municipal Income Tax</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes		\$ 7,853,369			\$ 7,853,369
Property and other local taxes	\$ 952,975			\$ 180,244	1,133,219
Charges for services	48,512			521,920	570,432
Licenses, permits and fees	8,199				8,199
Fines and forfeitures	386,356			87,783	474,139
Intergovernmental	1,153,315			973,092	2,126,407
Special assessments			\$ 137,126		137,126
Investment income	645,198		23,577	118,267	787,042
Donations			45,342		45,342
Other	130,293	30,054	78,350	132,934	371,631
Total revenues	<u>3,324,848</u>	<u>7,883,423</u>	<u>284,395</u>	<u>2,014,240</u>	<u>13,506,906</u>
Expenditures:					
Current:					
General government	1,633,249	495,599		44,874	2,173,722
Security of persons and property	4,646,658			731,440	5,378,098
Public health and welfare	17,887				17,887
Transportation				836,319	836,319
Community environment	124,741			178,325	303,066
Leisure time activity	829,797			888,895	1,718,692
Economic development and assistance	101,986			55,591	157,577
Other	1,159				1,159
Capital outlay			1,888,156	66,948	1,955,104
Debt service:					
Principal retirement				209,365	209,365
Interest and fiscal charges				211,219	211,219
Total expenditures	<u>7,355,477</u>	<u>495,599</u>	<u>1,888,156</u>	<u>3,222,976</u>	<u>12,962,208</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,030,629)</u>	<u>7,387,824</u>	<u>(1,603,761)</u>	<u>(1,208,736)</u>	<u>544,698</u>
Other financing sources (uses):					
Transfers in	4,760,000		2,000,000	1,415,000	8,175,000
Transfers out	(570,000)	(7,605,000)			(8,175,000)
Sale of capital assets.					
Total other financing sources (uses)	<u>4,190,000</u>	<u>(7,605,000)</u>	<u>2,000,000</u>	<u>1,415,000</u>	
Net change in fund balances	159,371	(217,176)	396,239	206,264	544,698
Fund balances at beginning of year	<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>
Fund balances at end of year	<u>\$ 2,874,693</u>	<u>\$ 4,730,845</u>	<u>\$ 1,579,743</u>	<u>\$ 5,001,179</u>	<u>\$ 14,186,460</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, 2006**

Net change in fund balances - total governmental funds \$ 544,698

*Amounts reported for governmental activities
in the statement of activities are different because:*

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 depreciation expense exceeded capital outlays in the current period.

Capital asset additions	\$	1,366,927	
Current year depreciation		(1,488,330)	
Total			(121,403)

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. (11,080)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes		7,179	
Intergovernmental		(11,407)	
Municipal income taxes		(384,775)	
Total			(389,003)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 209,365

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (44,714)

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. (96,836)

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. (25,956)

Change in net assets of governmental activities \$ 65,071

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property and other local taxes	\$ 853,200	\$ 853,200	\$ 952,975	\$ 99,775
Charges for services	44,200	44,200	48,512	4,312
Licenses, permits and fees	11,200	11,200	8,199	(3,001)
Fines and forfeitures	307,000	307,000	325,376	18,376
Intergovernmental	1,054,800	1,054,800	1,163,709	108,909
Investment income	550,000	550,000	633,947	83,947
Other	170,500	170,500	129,760	(40,740)
Total revenues	<u>2,990,900</u>	<u>2,990,900</u>	<u>3,262,478</u>	<u>271,578</u>
Expenditures:				
Current:				
General government	1,736,805	1,736,805	1,574,073	162,732
Security of persons and property	4,878,610	4,878,610	4,704,891	173,719
Public health and welfare	26,200	26,200	18,016	8,184
Community environment	124,825	132,325	124,879	7,446
Leisure time activity	822,670	863,670	831,424	32,246
Economic development and assistance	109,230	109,230	101,707	7,523
Other	56,000	56,000	7,065	48,935
Total expenditures	<u>7,754,340</u>	<u>7,802,840</u>	<u>7,362,055</u>	<u>440,785</u>
Deficiency of revenues under expenditures	<u>(4,763,440)</u>	<u>(4,811,940)</u>	<u>(4,099,577)</u>	<u>712,363</u>
Other financing sources (uses):				
Transfers in	4,760,000	4,760,000	4,760,000	
Transfers out	(570,000)	(570,000)	(570,000)	
Total other financing sources (uses)	<u>4,190,000</u>	<u>4,190,000</u>	<u>4,190,000</u>	<u>-</u>
Net change in fund balance	(573,440)	(621,940)	90,423	712,363
Fund balance at beginning of year	2,869,732	2,869,732	2,869,732	
Prior year encumbrances appropriated	<u>67,546</u>	<u>67,546</u>	<u>67,546</u>	
Fund balance at end of year	<u>\$ 2,363,838</u>	<u>\$ 2,315,338</u>	<u>\$ 3,027,701</u>	<u>\$ 712,363</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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 8,102,500	\$ 8,102,500	\$ 7,802,178	\$ (300,322)
Charges for services	200	200		(200)
Other	50,400	50,400	74,048	23,648
Total revenues	<u>8,153,100</u>	<u>8,153,100</u>	<u>7,876,226</u>	<u>(276,874)</u>
Expenditures:				
Current:				
General government	543,210	543,210	502,381	40,829
Excess of revenues over expenditures	<u>7,609,890</u>	<u>7,609,890</u>	<u>7,373,845</u>	<u>(236,045)</u>
Other financing uses:				
Transfers out	(7,605,000)	(7,605,000)	(7,605,000)	
Net change in fund balance	4,890	4,890	(231,155)	(236,045)
Fund balance at beginning of year	3,317,121	3,317,121	3,317,121	
Prior year encumbrances appropriated	<u>4,382</u>	<u>4,382</u>	<u>4,382</u>	
Fund balance at end of year	<u>\$ 3,326,393</u>	<u>\$ 3,326,393</u>	<u>\$ 3,090,348</u>	<u>\$ (236,045)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006**

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 2,723,026	\$ 1,897,903	\$ 4,620,929	\$ 17,467
Receivables (net of allowance for uncollectibles):				
Accounts	517,807	423,450	941,257	
Materials and supplies inventory	173,539	44,353	217,892	
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents with escrow agents	455,468	17,062	472,530	
Equity in pooled cash and cash equivalents	43,100		43,100	
Deferred bond issuance costs	381,339	22,569	403,908	
Capital assets:				
Land and construction-in-progress	1,033,585	398,680	1,432,265	
Depreciable capital assets, net	35,366,456	10,220,970	45,587,426	
Total capital assets	<u>36,400,041</u>	<u>10,619,650</u>	<u>47,019,691</u>	
Total assets	<u>40,694,320</u>	<u>13,024,987</u>	<u>53,719,307</u>	<u>17,467</u>
Liabilities:				
Current liabilities:				
Accounts payable	71,153	63,347	134,500	702
Accrued wages and benefits	65,142	72,550	137,692	2,402
Pension obligation payable	4,098	4,545	8,643	143
Accrued interest payable	17,801	773	18,574	
Current portion of compensated absences	15,403	26,798	42,201	
Current portion of general obligation bonds payable	390,000	415,000	805,000	
Current portion of OPWC loans payable		19,225	19,225	
Payable from restricted assets:				
Retainage Payable	455,468	17,062	472,530	
Refundable deposits	43,100		43,100	
Total current liabilities	<u>1,062,165</u>	<u>619,300</u>	<u>1,681,465</u>	<u>3,247</u>
Long-term liabilities:				
Compensated absences	160,801	208,441	369,242	
General obligation bonds payable	9,165,000		9,165,000	
OPWC loans payable		300,265	300,265	
Total long-term liabilities	<u>9,325,801</u>	<u>508,706</u>	<u>9,834,507</u>	
Total liabilities	<u>10,387,966</u>	<u>1,128,006</u>	<u>11,515,972</u>	<u>3,247</u>
Net assets:				
Invested in capital assets, net of related debt	27,226,380	9,907,729	37,134,109	
Unrestricted	3,079,974	1,989,252	5,069,226	14,220
Total Net Assets	<u>\$ 30,306,354</u>	<u>\$ 11,896,981</u>	42,203,335	<u>\$ 14,220</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			(19,614)	
Net assets of business-type activities			<u>\$ 42,183,721</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, 2006

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Funds</u>
Operating revenues:				
Charges for services	\$ 3,284,239	\$ 3,726,569	\$ 7,010,808	\$ 1,037,604
Tap-in fees	6,500		6,500	
Other	25,487	73,435	98,922	80,436
Total operating revenues	<u>3,316,226</u>	<u>3,800,004</u>	<u>7,116,230</u>	<u>1,118,040</u>
Operating expenses:				
Personal service	1,640,188	1,879,665	3,519,853	1,003,945
Contractual services	207,135	374,249	581,384	13,468
Materials and supplies	388,104	669,787	1,057,891	8,132
Utilities expense	217,457	376,559	594,016	7,116
Depreciation	922,151	495,658	1,417,809	
Other	93,061	61,985	155,046	154,375
Total operating expenses	<u>3,468,096</u>	<u>3,857,903</u>	<u>7,325,999</u>	<u>1,187,036</u>
Operating loss	<u>(151,870)</u>	<u>(57,899)</u>	<u>(209,769)</u>	<u>(68,996)</u>
Nonoperating revenues (expenses):				
Interest revenue	70,390	25,754	96,144	5,884
Interest and fiscal charges	(423,313)	(40,631)	(463,944)	
Intergovernmental		427,038	427,038	
Total nonoperating revenues (expenses)	<u>(352,923)</u>	<u>412,161</u>	<u>59,238</u>	<u>5,884</u>
Net income (loss) before capital contributions	<u>(504,793)</u>	<u>354,262</u>	<u>(150,531)</u>	<u>(63,112)</u>
Capital contributions	<u>976,865</u>	<u>134,516</u>	<u>1,111,381</u>	
Changes in net assets	472,072	488,778	960,850	(63,112)
Net assets at beginning of year	<u>29,834,282</u>	<u>11,408,203</u>		<u>77,332</u>
Net assets at end of year	<u>\$ 30,306,354</u>	<u>\$ 11,896,981</u>		<u>\$ 14,220</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			<u>(37,156)</u>	
Change in net assets of business-type activities			<u>\$ 923,694</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, 2006**

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Cash flows from operating activities:				
Cash received from charges for services	\$ 3,205,117	\$ 3,764,645	\$ 6,969,762	\$ 1,037,604
Cash received from tap-in fees	6,500		6,500	
Cash received from other operations	24,233	73,435	97,668	80,436
Cash payments for personal services	(1,629,618)	(1,841,560)	(3,471,178)	(1,003,449)
Cash payments for contractual services	(210,249)	(378,803)	(589,052)	(13,527)
Cash payments for materials and supplies.	(308,539)	(672,388)	(980,927)	(7,947)
Cash payments for utilities expense.	(210,945)	(358,702)	(569,647)	(7,107)
Cash payments for other expenses	(79,684)	(61,985)	(141,669)	(154,375)
Net cash provided by (used in) operating activities	<u>796,815</u>	<u>524,642</u>	<u>1,321,457</u>	<u>(68,365)</u>
Cash flows from noncapital financing activities:				
Cash received operating grants		427,038	427,038	
Cash flows from capital and related financing activities:				
Cash payments for the acquisition of capital assets.	(1,998,051)	(867,998)	(2,866,049)	
Cash payments for principal retirement.	(380,000)	(419,778)	(799,778)	
Cash payments for interest and fiscal charges	(410,858)	(18,450)	(429,308)	
Net cash used in capital and related financing activities.	<u>(2,788,909)</u>	<u>(1,306,226)</u>	<u>(4,095,135)</u>	
Cash flows from investing activities:				
Cash received from interest earned.	70,390	25,754	96,144	5,884
Net decrease in cash and cash equivalents	(1,921,704)	(328,792)	(2,250,496)	(62,481)
Cash and cash equivalents at beginning of year	<u>5,143,298</u>	<u>2,243,757</u>	<u>7,387,055</u>	<u>79,948</u>
Cash and cash equivalents at end of year.	<u>\$ 3,221,594</u>	<u>\$ 1,914,965</u>	<u>\$ 5,136,559</u>	<u>\$ 17,467</u>
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss.	\$ (151,870)	\$ (57,899)	\$ (209,769)	\$ (68,996)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation	922,151	495,658	1,417,809	
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable.	(79,122)	38,076	(41,046)	
Decrease in materials and supplies inventory	64,634	4,200	68,834	
Increase in accounts payable	18,067	7,422	25,489	152
Increase in accrued wages and benefits	14,665	15,331	29,996	475
Increase in compensated absences payable.	7,064	21,622	28,686	
Increase in pension obligation payable.	291	232	523	4
Decrease in refundable deposits liability.	935		935	
Net cash provided by (used) operating activities	<u>\$ 796,815</u>	<u>\$ 524,642</u>	<u>\$ 1,321,457</u>	<u>\$ (68,365)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 43,810
Cash in segregated accounts	14,026
Receivables:	
Accounts	2,861
	<hr/>
Total assets	\$ 60,697
	<hr/> <hr/>
Liabilities:	
Due to other governments	\$ 36,671
Deposits held and due to others	24,026
	<hr/>
Total liabilities	\$ 60,697
	<hr/> <hr/>

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, 2006**

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, 2006
(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, 2006
(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, 2006
(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, 2006
(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, 2006, but which were levied to finance year 2007 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
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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 fund-department and within each department, the amount spent on personal services for all 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 2006.

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 within each department, the amount for personal services. 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 2006.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

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

G. Cash and Investments

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

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

During fiscal year 2006, 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, 2006.

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 2006 was \$645,198, which includes \$495,856 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

H. Loans Receivable

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

I. Inventories of Materials and Supplies

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

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

J. Capital Assets

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

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 2006.

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:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	10-50 years	10-50 years
Buildings	25-50 years	25-50 years
Building improvements	5-50 years	5-25 years
Machinery and equipment	3-30 years	5-10 years
Infrastructure - Streets, Sidewalks		
Storm Sewers	25-50 years	50 years
Infrastructure - Bridges and Culverts	25-50 years	25-50 years

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments as well as the sick leave accumulated 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

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.

N. Fund Balance Reserves and Designations

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, 2006, are comprised of the following:

	<u>Cash and Cash Equivalents</u>
Customer Deposits	\$ 43,100
Retainage Payable	<u>472,530</u>
Total Restricted Assets	<u><u>\$ 558,730</u></u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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

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. The Water enterprise fund received \$976,865 in capital contributions and the Sewer enterprise fund received \$134,516 during 2006.

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. None of the City's net assets are restricted by enabling legislation.

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 2006.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Changes in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

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.

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;

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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.

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 \$43,100 in restricted assets for refundable deposits from customers of the water fund. The City also had \$472,530 in restricted assets for escrow accounts whose use is limited to payment of retainage to contractors. These amounts are included in the "Deposits with Financial Institutions" below.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

A. Deposits with Financial Institutions

As of December 31, 2006, the carrying amount of all City deposits was \$7,178,450. At December 31, 2006, \$333,638 of the City's bank balance of \$7,529,767 was covered by the Federal Deposit Insurance Corporation, and \$7,196,129 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.

B. Investments

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
FHLMC	\$ 1,992,200	\$ 1,992,200
STAR Ohio	<u>8,391,152</u>	<u>8,391,152</u>
	<u>\$ 10,383,352</u>	<u>\$ 10,383,352</u>

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC	\$ 1,992,200	19.19%
STAR Ohio	<u>8,391,152</u>	<u>80.81%</u>
	<u>\$ 10,383,352</u>	<u>100.00%</u>

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, 2006:

Cash and Investments per Note Disclosure

Carrying amount of deposits	\$ 7,178,450
Investments	10,383,352
Cash in segregated accounts	<u>14,026</u>
Total	<u>\$ 17,575,828</u>

Cash and investments per Statement of Net Assets

Governmental activities	\$ 12,381,433
Business type activities	5,136,559
Agency funds	<u>57,836</u>
Total	<u>\$ 17,575,828</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2006 consisted of the following, as reported in the fund financial statements:

<u>Transfers out of general fund to:</u>	
Nonmajor governmental funds	\$ 570,000
<u>Transfers out of municipal income tax fund to:</u>	
General fund	4,760,000
Capital improvement fund	2,000,000
Nonmajor governmental funds	<u>845,000</u>
Total	<u>\$ 8,175,000</u>

All transfers were legal and in compliance with Ohio Revised Code. Transfers between governmental funds are eliminated for reporting in the governmental statement of activities. Transfers out of the general fund were made when police and fire pension liability payments became due. Transfers out of the municipal income tax fund were to distribute the City's income tax collections.

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 2006 represent the collection of 2005 taxes. For 2006, real property taxes were levied after October 1, 2006, on the assessed values as of January 1, 2006, the lien date. These taxes will be collected in and are intended to finance 2007 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, 2005, on the assessed values as of December 31, 2004, 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 2006 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 6 - PROPERTY TAXES – (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2006. 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 2006 operations.

The full tax rate for all City operations for the year ended December 31, 2006, was \$3.20 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2006 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real property	\$ 244,622,640
Public utility	10,092,820
Tangible personal property	<u>37,194,209</u>
Total assessed value	<u>\$ 291,909,669</u>

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 \$7,853,369 in 2006.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 8 - RECEIVABLES

Receivables at December 31, 2006, 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, 2006, as well as intended to finance fiscal 2006 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	\$ 1,787,888	
Property and other local taxes	965,829	
Accounts	113,883	\$ 941,257
Loans	304,666	
Due from other governments	\$ 950,175	

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 2006, there were loans to five businesses with a total principal balance of \$304,666. \$58,178 is the amount due within one year.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 798,709			\$ 798,709
Construction in progress	<u>3,368,731</u>	<u>\$ 768,159</u>	<u>\$(3,920,609)</u>	<u>216,281</u>
Total capital assets, not being depreciated	<u>4,167,440</u>	<u>768,159</u>	<u>(3,920,609)</u>	<u>1,014,990</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,329,771	2,152,407		4,482,178
Buildings and improvements	10,649,428	1,424,181		12,073,609
Machinery and equipment	4,080,263	419,501	(219,145)	4,280,619
Infrastructure	<u>17,499,723</u>	<u>523,288</u>	<u> </u>	<u>18,023,011</u>
Total capital assets, being depreciated	<u>34,559,185</u>	<u>4,519,377</u>	<u>(219,145)</u>	<u>38,859,417</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(472,154)	(139,962)		(612,116)
Buildings and improvements	(2,767,533)	(335,017)		(3,102,550)
Machinery and equipment	(2,774,909)	(321,342)	208,065	(2,888,186)
Infrastructure	<u>(7,702,467)</u>	<u>(692,009)</u>	<u> </u>	<u>(8,394,476)</u>
Total accumulated depreciation	<u>(13,717,063)</u>	<u>(1,488,330)</u>	<u>208,065</u>	<u>(14,997,328)</u>
Total capital assets, being depreciated, net	<u>20,842,122</u>	<u>3,031,047</u>	<u>(11,080)</u>	<u>23,862,089</u>
Governmental activities capital assets, net	<u>\$25,009,562</u>	<u>\$ 3,799,206</u>	<u>\$(3,931,689)</u>	<u>\$ 24,877,079</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 10 - CAPITAL ASSETS – (Continued)

<u>Business-Type Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 898,891			\$ 898,891
Construction in progress	<u>18,238,745</u>	<u>\$ 2,275,525</u>	<u>\$(19,980,896)</u>	<u>533,374</u>
Total capital assets, not being depreciated	<u>19,137,636</u>	<u>2,275,525</u>	<u>(19,980,896)</u>	<u>1,432,265</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	879,679	677,496		1,557,175
Buildings and improvements	22,892,045	13,976,890		36,868,935
Machinery and equipment	5,598,374	2,058,410	(20,996)	7,635,788
Infrastructure	<u>14,761,632</u>	<u>4,820,016</u>	<u> </u>	<u>19,581,648</u>
Total capital assets, being depreciated	<u>44,131,730</u>	<u>21,532,812</u>	<u>(20,996)</u>	<u>65,643,546</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(103,475)	(32,932)		(136,407)
Buildings and improvements	(9,943,488)	(845,330)		(10,788,818)
Machinery and equipment	(3,711,315)	(275,210)	20,996	(3,965,529)
Infrastructure	<u>(4,901,029)</u>	<u>(264,337)</u>	<u> </u>	<u>(5,165,366)</u>
Total accumulated depreciation	<u>(18,659,307)</u>	<u>(1,417,809)</u>	<u>20,996</u>	<u>(20,056,120)</u>
Total capital assets, being depreciated, net	<u>25,472,423</u>	<u>20,115,003</u>	<u> </u>	<u>45,587,426</u>
Governmental activities capital assets, net	<u>\$ 44,610,059</u>	<u>\$ 22,390,528</u>	<u>\$(19,980,896)</u>	<u>\$47,019,691</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 10 - CAPITAL ASSETS – (Continued)

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

Governmental Activities:

General government	\$ 75,236
Security of persons and property	163,363
Transportation	824,061
Leisure time activities	408,226
Economic development	<u>17,444</u>
 Total depreciation expense	 <u>\$ 1,488,330</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. The City's long term obligations at December 31, 2006, were as follows:

	Balance			Balance	Amounts
<u>Governmental Activities</u>	<u>12/31/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/06</u>	<u>Due Within</u>
<u>General Obligation Bonds</u>					<u>One Year</u>
Community Center	\$ 3,745,000		\$ (195,000)	\$ 3,550,000	\$ 205,000
<u>Pension Liability</u>					
Police and Fire Pension	819,804		(14,365)	805,439	14,982
<u>Other Long-Term Obligations</u>					
Compensated Absences	<u>677,752</u>	<u>\$140,739</u>	<u>(43,903)</u>	<u>774,588</u>	<u>46,280</u>
Total Long-Term Obligations	<u>\$ 5,242,556</u>	<u>\$140,739</u>	<u>\$ (253,268)</u>	<u>\$ 5,130,027</u>	<u>\$ 266,262</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, 2006
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS – (Continued)

<u>Business-Type Activities:</u>	Balance <u>12/31/05</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/06</u>	Amounts Due Within <u>One Year</u>
<u>General Obligation Bonds</u>					
Water - series 2003	\$ 5,360,000		\$ (200,000)	\$ 5,160,000	\$ 210,000
Water - series 2003	2,365,000		(95,000)	2,270,000	95,000
Water - series 2003	2,210,000		(85,000)	2,125,000	85,000
Sewer - series 2003	<u>820,000</u>		<u>(405,000)</u>	<u>415,000</u>	<u>415,000</u>
Total	<u>10,755,000</u>		<u>(785,000)</u>	<u>9,970,000</u>	<u>805,000</u>
<u>OPWC Loans</u>					
Sewer - series 2001	165,320		(10,332)	154,988	5,166
Sewer - series 2004	<u>173,394</u>		<u>(8,892)</u>	<u>164,502</u>	<u>4,446</u>
Total	<u>338,714</u>		<u>(19,224)</u>	<u>319,490</u>	<u>9,612</u>
<u>Other Long-Term Obligations</u>					
Compensated Absences	<u>382,757</u>	<u>\$ 70,252</u>	<u>(41,566)</u>	<u>411,443</u>	<u>42,201</u>
Total Long-Term Obligations	<u>\$11,476,471</u>	<u>\$ 70,252</u>	<u>\$ (845,790)</u>	<u>\$10,700,933</u>	<u>\$ 856,813</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, 2006, is \$4,760,000, 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, 2006
(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, 2006, is \$2,135,000, 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, 2006 is \$415,000, 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, 2006
(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, 2006 are as follows:

Year	General Obligation Bonds - Community Center			Pension Liability - Police and Fire Pension		
	Principal	Interest	Total	Principal	Interest	Total
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	245,000	127,995	372,995	17,727	31,329	49,056
2012 - 2016	1,405,000	457,802	1,862,802	100,734	144,546	245,280
2017 - 2021	1,020,000	100,395	1,120,395	124,306	120,974	245,280
2022 - 2026				153,396	91,884	245,280
2027 - 2031				189,291	55,989	245,280
2032 - 2035				156,083	13,410	169,493
Total	<u>\$3,550,000</u>	<u>\$1,300,662</u>	<u>\$4,850,662</u>	<u>\$ 805,439</u>	<u>\$ 590,454</u>	<u>\$1,395,893</u>

Year	General Obligation Bonds - Water - series 2003			General Obligation Bonds - Water - series 2003		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 210,000	\$ 217,959	\$ 427,959	\$ 95,000	\$ 94,569	\$ 189,569
2008	215,000	213,231	428,231	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	230,000	191,759	421,759	110,000	82,344	192,344
2012 - 2016	1,300,000	814,095	2,114,095	625,000	342,340	967,340
2017 - 2021	1,600,000	518,255	2,118,255	770,000	200,398	970,398
2022 - 2024	1,160,000	117,750	1,277,750	360,000	27,251	387,251
Total	<u>\$5,160,000</u>	<u>\$2,479,467</u>	<u>\$7,639,467</u>	<u>\$2,270,000</u>	<u>\$1,014,783</u>	<u>\$3,284,783</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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
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	95,000	79,093	174,093			
2012 - 2016	540,000	335,200	875,200			
2017 - 2021	660,000	213,158	873,158			
2022 - 2024	475,000	48,250	523,250			
Total	<u>\$2,125,000</u>	<u>\$1,020,759</u>	<u>\$3,145,759</u>	<u>\$ 415,000</u>	<u>\$ 9,337</u>	<u>\$ 424,337</u>

Year	OPWC Loans - Sewer - series 2001			OPWC Loans - Sewer - series 2004		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 5,166		\$ 5,166	\$ 4,446		\$ 4,446
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	10,333		10,333	8,892		8,892
2012 - 2016	51,663		51,663	44,460		44,460
2017 - 2021	51,662		51,662	44,460		44,460
2022 - 2025	5,167		5,167	35,568		35,568
Total	<u>\$ 154,988</u>	<u></u>	<u>\$ 154,988</u>	<u>\$ 164,502</u>	<u></u>	<u>\$ 164,502</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, 2006, the City's total debt margin was \$27,100,525, and the unvoted debt margin was \$13,099,732.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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 1/3 or 33 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, 2006, the governmental activities liability for compensated absences was \$774,588, the business-type activities liability for compensated absences was \$411,443, and the City's total liability for compensated absences was \$1,186,031.

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 City belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 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 retains 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.

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 financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 13 - RISK MANAGEMENT – (Continued)

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

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

	2006	2005
Assets	\$9,620,148	\$8,219,430
Liabilities	(3,329,620)	(2,748,639)
Members' Equity	\$6,290,528	\$5,470,791

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

NOTE 14 - 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 benefit 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 OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 13.70%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 16.93% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$709,009, \$625,048, and \$599,924, respectively; 100% has been contributed for 2006, 2005 and 2004.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 14 - PENSION PLANS – (Continued)

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 the 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 statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. Contributions are authorized by state statute. The City's contributions for pension obligations to OP&F for police and firefighters were \$343,822 and \$326,322 for the year ended December 31, 2006, \$333,116 and \$295,301 for the year ended December 31, 2005, and \$334,610 and \$282,790 for the year ended December 31, 2004, respectively; 78.70% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$159,330, is recorded as a liability.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

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. 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 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care costs were assumed to increase between .50% and 6.00% annually for the next nine year and 4.00% annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS – (Continued)

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$232,886. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund 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 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% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$136,647 for police and \$105,375 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

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 fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues 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

	<u>General</u>	<u>Municipal Income Tax</u>
Budget basis	\$ 90,423	\$ (231,155)
Net adjustment for revenue accruals	62,370	7,197
Net adjustment for expenditure accruals	(52,455)	2,106
Adjustment for encumbrances	<u>59,033</u>	<u>4,676</u>
GAAP basis	<u>\$ 159,371</u>	<u>\$ (217,176)</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(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, 2006.

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.



Mary Taylor, CPA

Auditor of State

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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 10, 2008. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

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

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated January 10, 2008.

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*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management and City Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 10, 2008

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

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

FINDING NUMBER 2006-001

Material Weakness

Financial Reporting

The review of the financial statements resulted in seven significant audit adjustments ranging in amounts from \$4,446 to \$8,242,473.

Sound financial reporting is the responsibility of the City Auditor, Treasurer, and Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

To ensure the City's financial statements and notes to the statements are complete and accurate, the City should adopt policies and procedures, including a final review of the IPA compilation report by the City Auditor, to identify and correct errors and omissions. We recommend the City Auditor meet with the IPA prior to the 2007 GAAP conversion to assure that the prior audit adjustments have been addressed.

These weaknesses resulted in additional audit time to investigate the differences and prepare the audit adjustments.

Officials' Response

The City Auditor stated "the City of Fremont contracts with an IPA for GAAP conversions. We as the City of Fremont will consult with the IPA to assure all prior audit adjustments will be addressed in the 2007 conversion. We will also review all statements for accuracy upon completion."



Mary Taylor, CPA
Auditor of State

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
JANUARY 31, 2008**