



**Auditor of State
Betty Montgomery**

**CITY OF FREMONT
SANDUSKY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fremont, Sandusky County, Ohio (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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.

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

In our opinion, except for the effects, if any, as might have been determined to be necessary had we been able to obtain sufficient evidential mater supporting the amounts reported as income tax revenue for the governmental activities and Municipal Income Tax fund and the related budgetary comparisons, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Municipal Income Tax fund of the City of Fremont, Sandusky County, Ohio as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the Unites States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects the respective financial position of the business-type activities, the General Fund, and the aggregate remaining fund information of the City of Fremont, Sandusky County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2005, 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 the Governmental Accounting Standards Board requires. However, we have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measuring and presenting the supplementary information. We did not audit and do not express an opinion on this information.

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

Betty Montgomery
Auditor of State

December 20, 2005

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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, 2004. 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 2004 are as follows:

- The total net assets of the City increased \$9,897,917 or 15.65 percent over 2003. Net assets of governmental activities decreased \$146,451 or 0.45 percent under 2003 and net assets of business-type activities increased \$10,044,368 or 32.87 percent over 2003.
- General revenues accounted for \$9,854,787 or 80.65 percent of total governmental activities revenue. Program specific revenues accounted for \$2,364,499 or 19.35 percent of total governmental activities revenue.
- The City had \$11,523,411 in expenses related to governmental activities; \$2,364,499 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$9,158,912 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$9,854,787.
- The general fund had revenues and other financing sources of \$7,166,303 in 2004. This represents an increase of \$481,242 or 7.20 percent from 2003. The expenditures and other financing uses of the general fund, which totaled \$7,052,588 in 2004, increased \$138,659 or 2.01 percent from 2003. The net increase in fund balance for the general fund was \$113,715 or 4.43 percent.
- The municipal income tax fund had revenues of \$7,290,250 in 2004. The expenditures of the municipal income tax fund totaled \$357,952 in 2004. The municipal income tax fund had transfers out to other funds in the amount of \$7,120,000. The net decrease in fund balance for the municipal income tax fund was \$187,702.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2004 by \$10,044,368. This increase in net assets was due primarily to capital contributions and charges for services revenue sufficient to cover operating expenses.
- In the general fund, actual revenues were \$4,159 higher than the final budget revenues and actual expenditures were \$480,258 less than the final budget expenditures. These positive variances are the result of the City's conservative budgeting. Budgeted expenditures increased \$37,700 from the original budget to the final budget, primarily due to an increase in general government expenditures.

Using this Annual Financial Report

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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 2004?" 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.

The City's statement of net assets and statement of activities can be found on pages 19-21 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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 and municipal income tax fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 22-27 of this report.

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. The basic proprietary fund financial statements can be found on pages 28-30 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 31 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements begin on page 33 of this report.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2004 and 2003:

	Net Assets					
	Governmental Activities		Business-type Activities		2004	2003
	2004	2003	2004	2003	Total	Total
<u>Assets</u>						
Current and other assets	\$ 16,983,244	\$ 17,038,390	\$ 18,865,724	\$ 15,033,384	\$ 35,848,968	\$ 32,071,774
Capital assets	<u>22,562,829</u>	<u>22,957,645</u>	<u>34,106,877</u>	<u>28,787,720</u>	<u>56,669,706</u>	<u>51,745,365</u>
Total assets	<u>39,546,073</u>	<u>39,996,035</u>	<u>52,972,601</u>	<u>43,821,104</u>	<u>92,518,674</u>	<u>83,817,139</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	5,416,818	5,626,672	12,111,128	12,728,872	17,527,946	18,355,544
Other liabilities	<u>1,605,365</u>	<u>1,699,022</u>	<u>259,985</u>	<u>535,112</u>	<u>1,865,350</u>	<u>2,234,134</u>
Total liabilities	<u>7,022,183</u>	<u>7,325,694</u>	<u>12,371,113</u>	<u>13,263,984</u>	<u>19,393,296</u>	<u>20,589,678</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	18,627,828	18,842,645	22,342,067	18,926,736	40,969,895	37,769,381
Restricted	1,534,275	2,341,566		2,530,000	1,534,275	4,871,566
Unrestricted	<u>12,361,787</u>	<u>11,486,130</u>	<u>18,259,421</u>	<u>9,100,384</u>	<u>30,621,208</u>	<u>20,586,514</u>
Total net assets	<u>\$ 32,523,890</u>	<u>\$ 32,670,341</u>	<u>\$ 40,601,488</u>	<u>\$ 30,557,120</u>	<u>\$ 73,125,378</u>	<u>\$ 63,227,461</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$73,125,378. At year-end, net assets were \$32,523,890 and \$40,601,488 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 61.25 percent of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$18,627,828 and \$22,342,067 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, 2004, 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, \$1,534,275, 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 \$12,361,787 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, 2004**

The table below shows the changes in net assets for fiscal years 2004 and 2003.

	Change in Net Assets					
	Governmental Activities 2004	Governmental Activities 2003	Business-type Activities 2004	Business-type Activities 2003	2004 Total	2003 Total
Revenues						
Program revenues:						
Charges for services	\$ 867,278	\$ 1,005,796	\$ 7,020,600	\$ 6,907,673	\$ 7,887,878	\$ 7,913,469
Operating grants and contributions	1,086,517	1,226,582	-	-	1,086,517	1,226,582
Capital grants and contributions	410,704	92,281	8,896,666	6,750,000	9,307,370	6,842,281
Total program revenues	<u>2,364,499</u>	<u>2,324,659</u>	<u>15,917,266</u>	<u>13,657,673</u>	<u>18,281,765</u>	<u>15,982,332</u>
General revenues:						
Property taxes	981,928	901,694	-	-	981,928	901,694
Income taxes	7,158,152	7,398,224	-	-	7,158,152	7,398,224
Unrestricted grants and entitlements	1,020,177	1,160,653	-	-	1,020,177	1,160,653
Investment earnings	221,340	168,913	158,964	21,879	380,304	190,792
Miscellaneous	473,190	174,144	26,440	312,385	499,630	486,529
Total general revenues	<u>9,854,787</u>	<u>9,803,628</u>	<u>185,404</u>	<u>334,264</u>	<u>10,040,191</u>	<u>10,137,892</u>
Total revenues	<u>12,219,286</u>	<u>12,128,287</u>	<u>16,102,670</u>	<u>13,991,937</u>	<u>28,321,956</u>	<u>26,120,224</u>
Expenses:						
General government	1,833,226	1,673,224	-	-	1,833,226	1,673,224
Security of persons and property	4,963,348	5,016,845	-	-	4,963,348	5,016,845
Public health and welfare	18,563	16,598	-	-	18,563	16,598
Transportation	2,283,598	1,059,161	-	-	2,283,598	1,059,161
Community environment	421,172	248,194	-	-	421,172	248,194
Leisure time activity	1,682,704	1,626,569	-	-	1,682,704	1,626,569
Economic development	76,942	330,910	-	-	76,942	330,910
Other	17,432	13,249	-	-	17,432	13,249
Interest and fiscal charges	226,426	233,549	-	-	226,426	233,549
Water	-	-	3,584,545	4,439,376	3,584,545	4,439,376
Sewer	-	-	3,316,083	3,243,573	3,316,083	3,243,573
Total expenses	<u>11,523,411</u>	<u>10,218,299</u>	<u>6,900,628</u>	<u>7,682,949</u>	<u>18,424,039</u>	<u>17,901,248</u>
Increase in net assets before transfers	695,875	1,909,988	9,202,042	6,308,988	9,897,917	8,218,976
Transfers	(842,326)	-	842,326	-	-	-
Increase in net assets	<u>(146,451)</u>	<u>1,909,988</u>	<u>10,044,368</u>	<u>6,308,988</u>	<u>9,897,917</u>	<u>8,218,976</u>
Net assets at beginning of year	<u>32,670,341</u>	<u>30,760,353</u>	<u>30,557,120</u>	<u>24,248,132</u>	<u>63,227,461</u>	<u>55,008,485</u>
Net assets at end of year	<u>\$ 32,523,890</u>	<u>\$ 32,670,341</u>	<u>\$ 40,601,488</u>	<u>\$ 30,557,120</u>	<u>\$ 73,125,378</u>	<u>\$ 63,227,461</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Governmental Activities

Governmental activities net assets decreased \$146,451 in 2004. This decrease is a result of transfers out to the business-type activities.

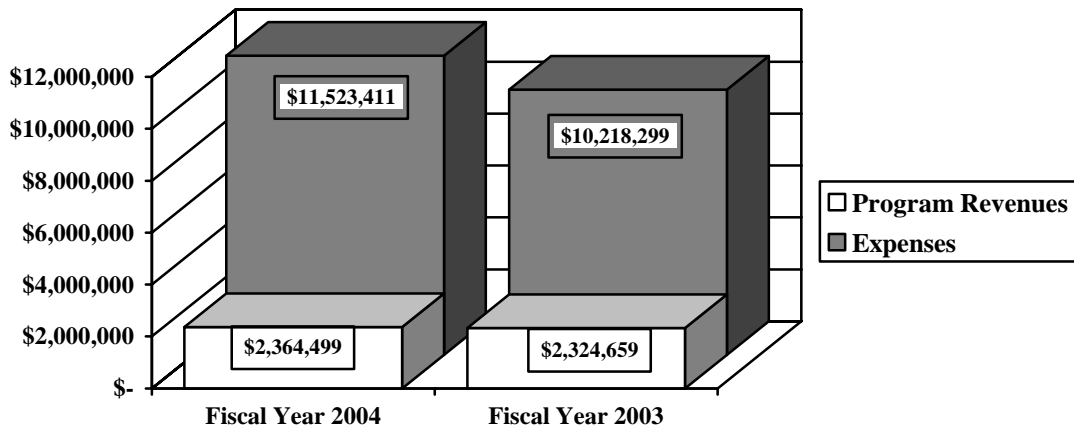
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$4,963,348 of the total expenses of the City. These expenses were partially funded by \$312,855 in direct charges to users of the services. General government expenses totaled \$1,833,226. General government expenses were partially funded by \$89,770 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$1,086,517 in operating grants and contributions and \$410,704 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$410,704 subsidized transportation programs. Of the total operating grants and contributions, \$710,319 subsidized transportation programs, \$349,045 subsidized community environment programs and \$13,059 subsidized economic development activities.

General revenues totaled \$9,854,787, and amounted to 80.65 percent of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,140,080. 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 \$1,020,177.

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**

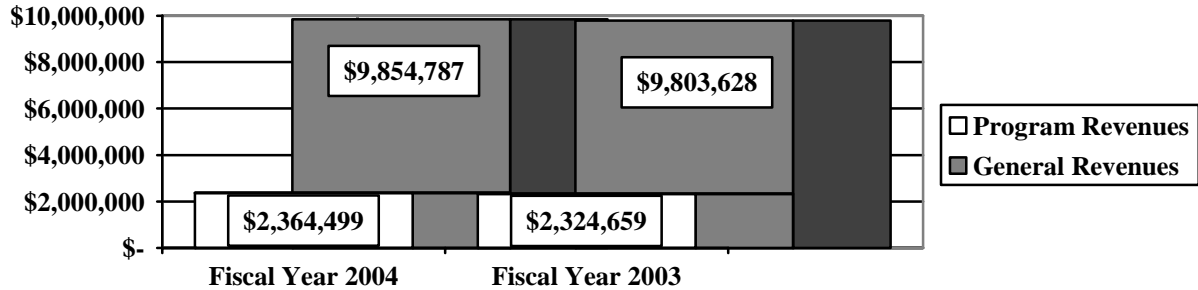
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program Expenses:				
General government	\$ 1,833,226	\$ 1,739,692	\$ 1,673,224	\$ 1,590,205
Security of persons and property	4,963,348	4,640,163	5,016,845	4,590,065
Public health and welfare	18,563	18,563	16,598	16,598
Transportation	2,283,598	1,157,350	1,059,161	93,727
Community environment	421,172	59,528	248,194	128,915
Leisure time activity	1,682,704	1,235,875	1,626,569	1,157,720
Economic development	76,942	63,883	330,910	69,612
Other	17,432	17,432	13,249	13,249
Interest and fiscal charges	<u>226,426</u>	<u>226,426</u>	<u>233,549</u>	<u>233,549</u>
Total	<u>\$ 11,523,411</u>	<u>\$ 9,158,912</u>	<u>\$ 10,218,299</u>	<u>\$ 7,893,640</u>

The dependence upon general revenues for governmental activities is apparent, with 79.48 percent of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues

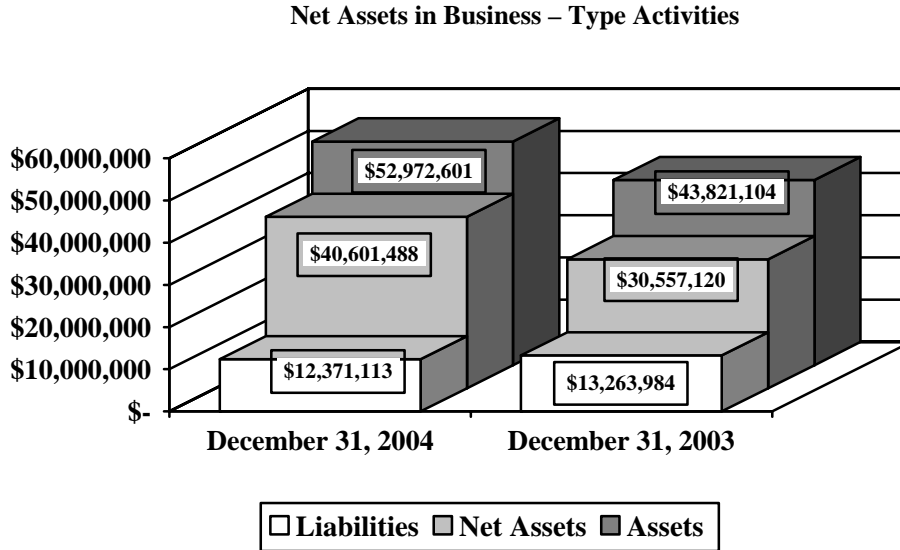


**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$15,917,266, general revenues of \$185,404 and expenses of \$6,900,628 for 2004. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 21) reported a combined fund balance of \$14,148,812 which is \$276,932 above last year's total of \$13,871,880. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/04</u>	Fund Balances <u>12/31/03</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 2,683,047	\$ 2,569,332	\$ 113,715
Municipal income tax	4,465,478	4,653,180	(187,702)
Other nonmajor governmental funds	<u>7,000,287</u>	<u>6,649,368</u>	<u>350,919</u>
Total	<u>\$ 14,148,812</u>	<u>\$ 13,871,880</u>	<u>\$ 276,932</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

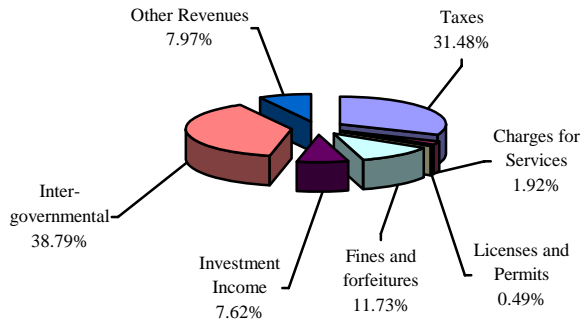
General Fund

The City's general fund balance increased \$113,715, 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.

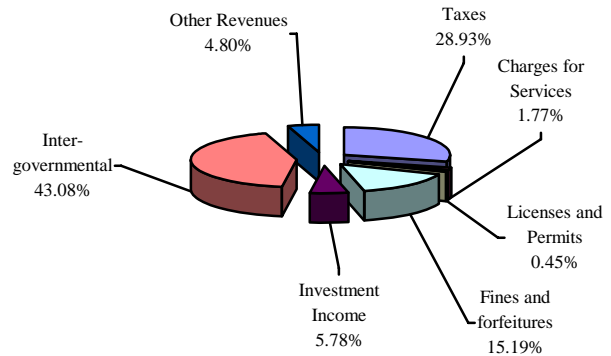
	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Percentage Change</u>
Revenues			
Taxes	\$ 805,743	\$ 743,977	8.30 %
Charges for services	49,085	45,429	8.05 %
Licenses and permits	12,599	11,564	8.95 %
Fines and forfeitures	300,297	390,770	(23.15) %
Intergovernmental	992,885	1,108,314	(10.41) %
Investment income	194,902	148,555	31.20 %
Other	<u>203,934</u>	<u>123,460</u>	65.18 %
 <i>Total</i>	 <u>\$ 2,559,445</u>	 <u>\$ 2,572,069</u>	 (0.49) %

Tax revenue represents 31.48 percent of all general fund revenue. Tax revenue increased slightly by 8.30 percent over prior year. The increase in investment income is due to aggressive management of the City's investment portfolio. The increase in taxes revenue is due to an increase in the collections of real and other taxes. All other revenue remained comparable to 2003.

Revenues – Fiscal Year 2004



Revenues – Fiscal Year 2003



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

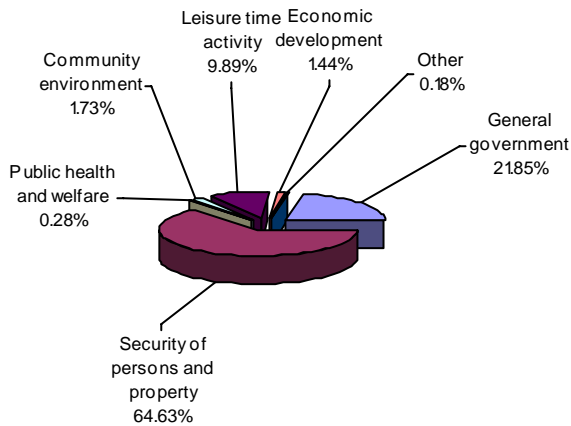
**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

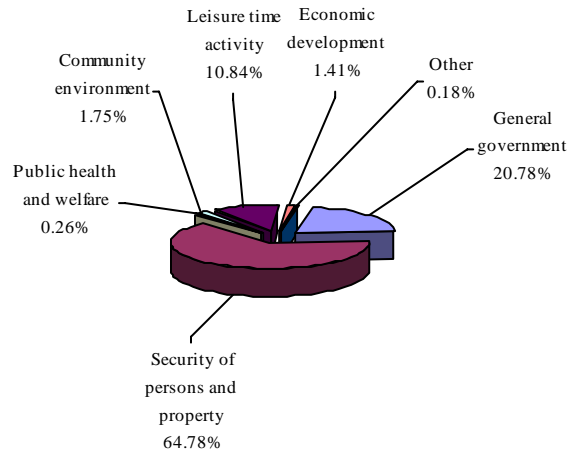
	2004 <u>Amount</u>	2003 <u>Amount</u>	Percentage <u>Change</u>
Expenditures			
General government	\$ 1,427,005	\$ 1,332,571	7.09 %
Security of persons and property	4,221,150	4,154,288	1.61 %
Public health and welfare	18,563	16,598	11.84 %
Community environment	112,711	111,921	0.71 %
Leisure time activity	645,711	695,079	(7.10) %
Economic development	93,960	90,369	3.97 %
Other	<u>12,007</u>	<u>11,622</u>	3.31 %
<i>Total</i>	<u>\$ 6,531,107</u>	<u>\$ 6,412,448</u>	1.85 %

The most significant decrease was in the area of leisure time activity. This decrease is primarily due to the control of expenditures by the City. All other expenditures remained comparable to 2003. 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 2004



Expenditures - Fiscal Year 2003



Municipal Income Tax Fund

The municipal income tax fund had revenues of \$7,290,250 in 2004. The expenditures of the municipal income tax fund totaled \$357,952 in 2004. The municipal income tax fund had transfers out to other funds in the amount of \$7,120,000. The net decrease in fund balance for the municipal income tax fund was \$187,702.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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 \$37,700 from \$7,184,633 to \$7,222,333. Actual revenues of \$7,166,734 exceeded final budgeted revenues by \$4,159. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$480,258 lower than the final budgeted amounts.

In the municipal income tax fund, one of the most significant changes was between the actual revenues of \$7,131,623 being lower than final budgeted revenues by \$348,927. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$29,684 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 2004, the City had \$56,669,706 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress (CIP). Of this total, \$22,562,829 was reported in governmental activities and \$34,106,877 was reported in business-type activities. The following table shows fiscal 2004 balances compared to 2003:

**CITY OF FREMONT
SANDUSKY COUNTY**

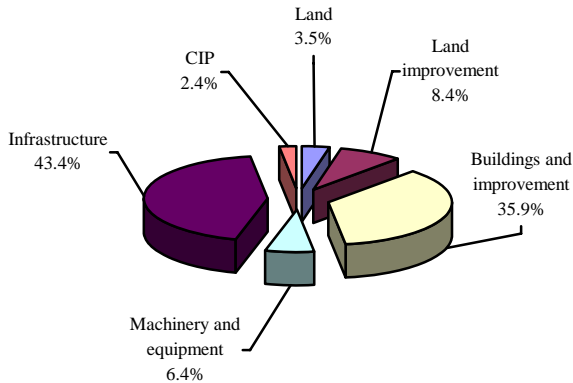
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

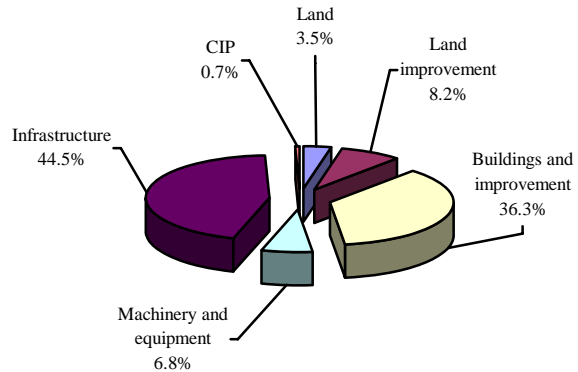
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 798,709	\$ 798,709	\$ 899,291	\$ 899,291	\$ 1,698,000	\$ 1,698,000
Land improvements	1,884,490	1,879,325	201,461	181,830	2,085,951	2,061,155
Buildings and improvements	8,107,228	8,338,591	13,600,745	14,105,530	21,707,973	22,444,121
Machinery and equipment	1,443,849	1,570,680	1,917,375	2,079,788	3,361,224	3,650,468
Infrastructure	9,796,917	10,218,972	9,463,355	9,275,371	19,260,272	19,494,343
Construction in progress	<u>531,636</u>	<u>151,368</u>	<u>8,024,650</u>	<u>2,245,910</u>	<u>8,556,286</u>	<u>2,397,278</u>
Totals	<u>\$ 22,562,829</u>	<u>\$ 22,957,645</u>	<u>\$ 34,106,877</u>	<u>\$ 28,787,720</u>	<u>\$ 56,669,706</u>	<u>\$ 51,745,365</u>

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

Capital Assets - Governmental Activities 2004



Capital Assets - Governmental Activities 2003



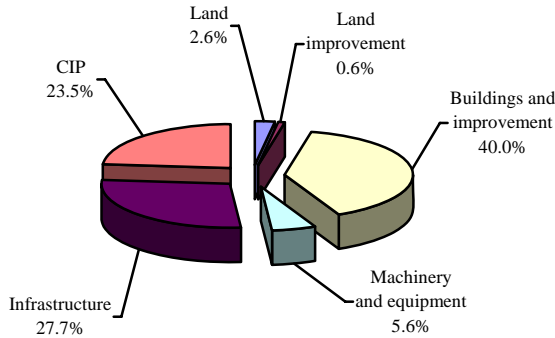
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 43.4 percent of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2004 and 2003.

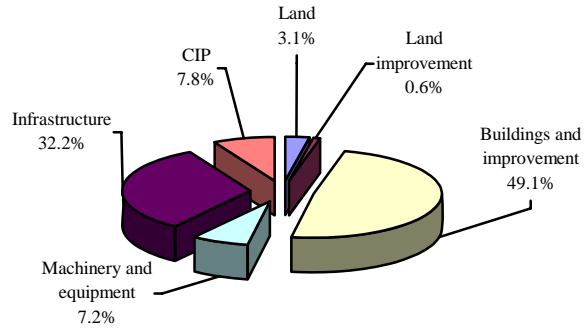
**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

Capital Assets - Business-Type Activities 2004



Capital Assets - Business-Type Activities 2003



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 27.7 percent of the City's total business-type capital assets.

Debt Administration

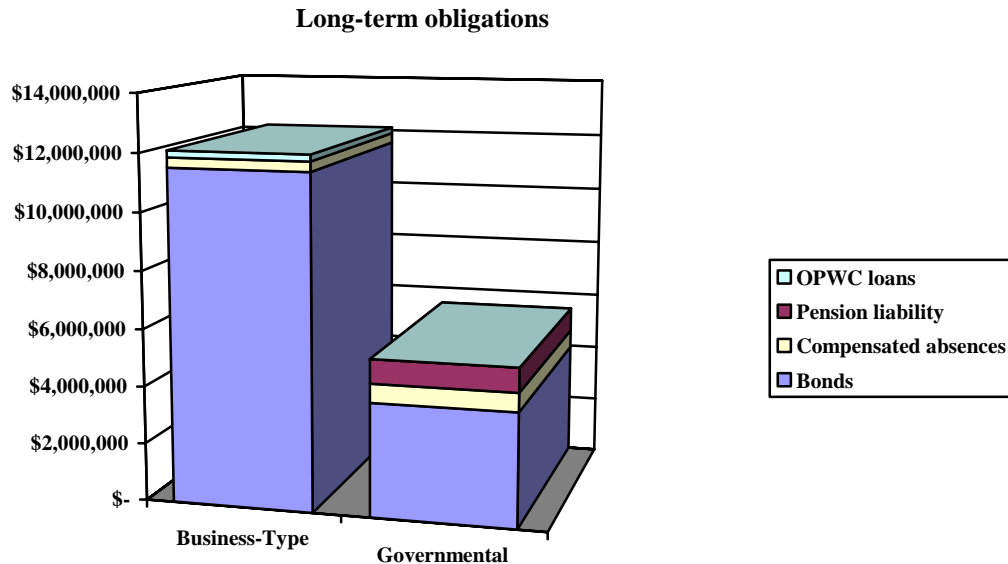
The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Compensated absences	\$ 648,240	\$ 664,888
General obligation bonds	3,935,000	4,115,000
Pension liability	<u>833,578</u>	<u>846,784</u>
<i>Total long-term obligations</i>	<u>\$ 5,416,818</u>	<u>\$ 5,626,672</u>
	<u>Business-type Activities</u>	
	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 11,535,000	\$ 12,205,000
OPWC loans	229,811	185,984
Compensated absences	<u>346,317</u>	<u>337,888</u>
<i>Total long-term obligations</i>	<u>\$ 12,111,128</u>	<u>\$ 12,728,872</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

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



Economic Conditions and Outlook

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

The following are highlights of recent economic development projects.

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

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

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

Contacting the City's Financial Management

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

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**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 11,826,897	\$ 15,456,511	\$ 27,283,408
Investments in segregated accounts	582,885	1,801,074	2,383,959
Receivables (net of allowances for uncollectibles):			
Income taxes	2,214,342	-	2,214,342
Property and other local taxes	936,099	-	936,099
Accounts	172,974	821,950	994,924
Loans	240,194	-	240,194
Due from other governments	957,201	-	957,201
Materials and supplies inventory	52,915	256,672	309,587
Deferred bond issuance costs	-	475,901	475,901
Internal balance	(263)	263	
Restricted assets:			
Equity in pooled cash and cash equivalents	-	53,353	53,353
Capital assets:			
Land and construction-in-progress	1,330,345	8,923,941	10,254,286
Depreciable capital assets, net	21,232,484	25,182,936	46,415,420
<i>Total capital assets</i>	<u>22,562,829</u>	<u>34,106,877</u>	<u>56,669,706</u>
<i>Total assets</i>	<u>39,546,073</u>	<u>52,972,601</u>	<u>92,518,674</u>
Liabilities:			
Accounts payable	162,535	86,222	248,757
Accrued wages and benefits	214,718	89,416	304,134
Pension obligation payable	194,111	9,504	203,615
Due to claimants	3,662	-	3,662
Accrued interest payable	18,035	21,490	39,525
Deferred revenue	1,012,304	-	1,012,304
Payable from restricted assets:			
Refundable deposits	-	53,353	53,353
Long-term liabilities:			
Due within one year	264,733	836,643	1,101,376
Due in more than one year	5,152,085	11,274,485	16,426,570
<i>Total liabilities</i>	<u>7,022,183</u>	<u>12,371,113</u>	<u>19,393,296</u>
Net assets:			
Invested in capital assets, net of related debt	18,627,829	22,342,066	40,969,895
Restricted for:			
Capital projects	-	-	-
Debt service	119,170	-	119,170
Transportation projects	1,217,509	-	1,217,509
Other purposes	197,596	-	197,596
Unrestricted	12,361,786	18,259,422	30,621,208
<i>Total net assets</i>	<u>\$ 32,523,890</u>	<u>\$ 40,601,488</u>	<u>\$ 73,125,378</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Expenses	Program Revenues		
		Charges for Services	Operating and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 1,833,226	\$ 89,770	\$ 3,764	\$ -
Security of persons and property	4,963,348	312,855	10,330	-
Public health and welfare	18,563	-	-	-
Transportation	2,283,598	5,225	710,319	410,704
Community environment	421,172	12,599	349,045	-
Leisure time activity	1,682,704	446,829	-	-
Economic development	76,942	-	13,059	-
Other	17,432	-	-	-
Interest and fiscal charges	226,426	-	-	-
<i>Total governmental activities</i>	<u>11,523,411</u>	<u>867,278</u>	<u>1,086,517</u>	<u>410,704</u>
Business-type Activities:				
Water	3,584,545	3,323,922	-	8,896,666
Sewer	3,316,083	3,696,678	-	-
<i>Total business-type activities</i>	<u>6,900,628</u>	<u>7,020,600</u>	<u>-</u>	<u>8,896,666</u>
<i>Total primary government</i>	<u>\$ 18,424,039</u>	<u>\$ 7,887,878</u>	<u>\$ 1,086,517</u>	<u>\$ 9,307,370</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net Revenue (Expense) and Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	\$ (1,739,692)	\$ -	\$ (1,739,692)
	(4,640,163)	-	(4,640,163)
	(18,563)	-	(18,563)
	(1,157,350)	-	(1,157,350)
	(59,528)	-	(59,528)
	(1,235,875)	-	(1,235,875)
	(63,883)	-	(63,883)
	(17,432)	-	(17,432)
	<u>(226,426)</u>	<u>-</u>	<u>(226,426)</u>
	<u>(9,158,912)</u>	<u>-</u>	<u>(9,158,912)</u>
	-	8,636,043	8,636,043
	<u>-</u>	<u>380,595</u>	<u>380,595</u>
	-	9,016,638	9,016,638
	<u>(9,158,912)</u>	<u>9,016,638</u>	<u>(142,274)</u>
General Revenues:			
Income taxes levied for:			
Special purposes	7,158,152	-	7,158,152
Property taxes levied for:			
General purposes	807,354	-	807,354
Special purposes	174,574	-	174,574
restricted to specific programs	1,020,177		1,020,177
Investment earnings	221,340	158,964	380,304
Miscellaneous	473,190	26,440	499,630
<i>Total general revenues</i>	<u>9,854,787</u>	<u>185,404</u>	<u>10,040,191</u>
Transfers	<u>(842,326)</u>	<u>842,326</u>	
Change in net assets	(146,451)	10,044,368	9,897,917
<i>Net assets at beginning of year</i>	<u>32,670,341</u>	<u>30,557,120</u>	<u>63,227,461</u>
<i>Net assets at end of year</i>	<u>\$ 32,523,890</u>	<u>\$ 40,601,488</u>	<u>\$ 73,125,378</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	General	Municipal Income Tax	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,870,393	\$ 2,847,578	\$ 6,090,886	\$ 11,808,857
Investments in segregated accounts	-	-	582,885	582,885
Receivables (net of allowance for uncollectibles):				
Income taxes	-	2,214,342	-	2,214,342
Property and other local taxes	760,579	-	175,520	936,099
Accounts	28,950	132,825	11,199	172,974
Loans	-	-	240,194	240,194
Due from other governments	599,856	-	357,345	957,201
Materials and supplies inventory	-	-	52,915	52,915
<i>Total assets</i>	<u>\$ 4,259,778</u>	<u>\$ 5,194,745</u>	<u>\$ 7,510,944</u>	<u>\$ 16,965,467</u>
Liabilities:				
Accounts payable	\$ 28,753	\$ 388	\$ 133,394	\$ 162,535
Accrued wages and benefits	181,044	4,810	27,070	212,924
Pension obligation payable	190,292	519	3,115	193,926
Due to claimants	3,662	-	-	3,662
Deferred revenue	1,172,980	723,550	347,078	2,243,608
<i>Total liabilities</i>	<u>1,576,731</u>	<u>729,267</u>	<u>510,657</u>	<u>2,816,655</u>
Fund balances:				
Reserved for encumbrances	28,511	229	611,442	640,182
Reserved for materials and supplies inventory	-	-	52,915	52,915
Reserved for loans	-	-	240,194	240,194
Reserved for unclaimed monies	15,146	-	-	15,146
Unreserved:				
Designated for workers compensation	350,748	-	-	350,748
Undesignated, reported in:				
General fund	2,288,642	-	-	2,288,642
Special revenue funds	-	4,465,249	3,425,036	7,890,285
Debt Service fund	-	-	137,205	137,205
Capital projects funds	-	-	2,533,495	2,533,495
<i>Total fund balances</i>	<u>2,683,047</u>	<u>4,465,478</u>	<u>7,000,287</u>	<u>14,148,812</u>
<i>Total liabilities and fund balances</i>	<u>\$ 4,259,778</u>	<u>\$ 5,194,745</u>	<u>\$ 7,510,944</u>	<u>\$ 16,965,467</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, 2004

Total governmental fund balances		\$ 14,148,812
<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.		22,562,829
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income tax	\$ 595,197	
Property and other local taxes	52,148	
Intergovernmental	<u>583,959</u>	
Total		1,231,304
An internal service fund is used by management to charge the costs of internal equipment service to individual funds. The assets and liabilities of the internal service fund is included in governmental activities on the statement of net assets. The net assets of the internal service fund, including an internal balance of \$263, are:		15,798
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	3,935,000	
Ohio Police and Fire	833,578	
Compensated absences	648,240	
Accrued interest	<u>18,035</u>	
Total		<u>(5,434,853)</u>
<i>Net assets of governmental activities</i>		<u><u>\$ 32,523,890</u></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, 2004

	General	Municipal Income Tax	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	\$ -	\$ 7,129,809	\$ -	\$ 7,129,809
Property and other local taxes	805,743	-	174,202	979,945
Charges for services	49,085	180	452,054	501,319
Licenses, permits and fees	12,599	-	-	12,599
Fines and forfeitures	300,297	-	53,063	353,360
Intergovernmental	992,885	-	1,751,303	2,744,188
Special assessments	-	-	45,273	45,273
Investment income	194,902	-	26,438	221,340
Other	203,934	160,261	107,793	471,988
<i>Total revenues</i>	<u>2,559,445</u>	<u>7,290,250</u>	<u>2,610,126</u>	<u>12,459,821</u>
Expenditures:				
Current:				
General government	1,427,005	357,952	43,080	1,828,037
Security of persons and property	4,221,150	-	644,360	4,865,510
Public health and welfare	18,563	-	-	18,563
Transportation	-	-	886,666	886,666
Community environment	112,711	-	313,645	426,356
Leisure time activity	645,711	-	858,650	1,504,361
Economic development and assistance	93,960	-	12,505	106,465
Other	12,007	-	5,425	17,432
Capital outlay	-	-	1,276,486	1,276,486
Debt service:				
Principal retirement	-	-	193,206	193,206
Interest and fiscal charges	-	-	226,998	226,998
<i>Total expenditures</i>	<u>6,531,107</u>	<u>357,952</u>	<u>4,461,021</u>	<u>11,350,080</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(3,971,662)</u>	<u>6,932,298</u>	<u>(1,850,895)</u>	<u>1,109,741</u>
Other financing sources (uses):				
Transfers in	4,600,000	-	3,041,481	7,641,481
Transfers out	(521,481)	(7,120,000)	(842,326)	(8,483,807)
Proceeds from sale of capital assets	6,858	-	2,659	9,517
<i>Total other financing sources (uses)</i>	<u>4,085,377</u>	<u>(7,120,000)</u>	<u>2,201,814</u>	<u>(832,809)</u>
<i>Net change in fund balances</i>	113,715	(187,702)	350,919	276,932
<i>Fund balances at beginning of year</i>	<u>2,569,332</u>	<u>4,653,180</u>	<u>6,649,368</u>	<u>13,871,880</u>
<i>Fund balances at end of year</i>	<u>\$ 2,683,047</u>	<u>\$ 4,465,478</u>	<u>\$ 7,000,287</u>	<u>\$ 14,148,812</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, 2004

Net change in fund balances - total governmental funds	\$	276,932
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$1,366,031) exceeded capital outlays (\$979,530) in the current period.		(386,501)
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.		(8,315)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(241,737)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		193,206
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		572
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.		16,648
The internal service fund used by management to charge the costs of internal equipment service to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including internal balance of \$263, is allocated among the governmental activities.		2,744
Change in net assets of governmental activities	\$	(146,451)

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, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Property and other local taxes	\$ 747,500	\$ 747,500	\$ 805,743	\$ 58,243
Charges for services	51,225	51,225	48,268	(2,957)
Licenses, permits and fees	11,350	11,350	12,599	1,249
Fines and forfeitures	379,000	379,000	310,972	(68,028)
Intergovernmental	1,036,000	1,036,000	991,593	(44,407)
Investment income	190,000	190,000	187,155	(2,845)
Other	137,500	137,500	203,546	66,046
<i>Total revenues</i>	<u>2,552,575</u>	<u>2,552,575</u>	<u>2,559,876</u>	<u>7,301</u>
Expenditures:				
Current:				
General government	1,617,522	1,654,022	1,476,608	177,414
Security of persons and property	4,519,804	4,519,804	4,350,452	169,352
Public health and welfare	26,845	26,845	18,573	8,272
Community environment	131,076	131,076	119,492	11,584
Leisure time activity	736,103	736,103	668,002	68,101
Economic development and assistance	106,283	106,283	97,361	8,922
Other	47,000	48,200	12,006	36,194
<i>Total expenditures</i>	<u>7,184,633</u>	<u>7,222,333</u>	<u>6,742,494</u>	<u>479,839</u>
Excess of revenues under expenditures	<u>(4,632,058)</u>	<u>(4,669,758)</u>	<u>(4,182,618)</u>	<u>487,140</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	10,000	10,000	6,858	(3,142)
Transfers in	4,600,000	4,600,000	4,600,000	-
Transfers out	(521,900)	(521,900)	(521,481)	419
<i>Total other financing sources (uses)</i>	<u>4,088,100</u>	<u>4,088,100</u>	<u>4,085,377</u>	<u>(2,723)</u>
<i>Net change in fund balance</i>	(543,958)	(581,658)	(97,241)	484,417
<i>Fund balance at beginning of year</i>	2,852,177	2,852,177	2,852,177	-
Prior year encumbrances appropriated	52,438	52,438	52,438	-
<i>Fund balance at end of year</i>	<u>\$ 2,360,657</u>	<u>\$ 2,322,957</u>	<u>\$ 2,807,374</u>	<u>\$ 484,417</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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 7,470,000	\$ 7,470,000	\$ 7,104,007	\$ (365,993)
Charges for services	200	200	180	(20)
Other	10,150	10,160	27,436	17,276
<i>Total revenues</i>	<u>7,480,350</u>	<u>7,480,360</u>	<u>7,131,623</u>	<u>(348,737)</u>
Expenditures:				
Current:				
General government	394,966	394,966	365,282	29,684
<i>Total expenditures</i>	<u>394,966</u>	<u>394,966</u>	<u>365,282</u>	<u>29,684</u>
<i>Excess of revenues over expenditures</i>	<u>7,085,384</u>	<u>7,085,394</u>	<u>6,766,341</u>	<u>(319,053)</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	200	190	-	(190)
Transfers out	(7,120,000)	(7,120,000)	(7,120,000)	-
<i>Total other financing sources (uses)</i>	<u>(7,119,800)</u>	<u>(7,119,810)</u>	<u>(7,120,000)</u>	<u>(190)</u>
<i>Net change in fund balance</i>	(34,416)	(34,416)	(353,659)	(319,243)
<i>Fund balance at beginning of year</i>	3,199,064	3,199,064	3,199,064	-
Prior year encumbrances appropriated	1,556	1,556	1,556	-
<i>Fund balance at end of year</i>	<u>\$ 3,166,204</u>	<u>\$ 3,166,204</u>	<u>\$ 2,846,961</u>	<u>\$ (319,243)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 13,308,852	\$ 2,147,659	\$ 15,456,511	\$ 18,040
Investments in segregated accounts	1,801,074	-	1,801,074	-
Receivables (net of allowance for uncollectibles):				
Accounts	466,621	355,329	821,950	-
Materials and supplies inventory	205,136	51,536	256,672	-
Noncurrent assets:				
Restricted assets:				
Equity in pooled cash and cash equivalents	53,353	-	53,353	-
Deferred bond issuance costs	407,665	68,236	475,901	-
Capital assets:				
Land and construction-in-progress	8,122,980	800,961	8,923,941	-
Depreciable capital assets, net	16,108,302	9,074,634	25,182,936	-
<i>Total capital assets</i>	<u>24,231,282</u>	<u>9,875,595</u>	<u>34,106,877</u>	<u>-</u>
<i>Total assets</i>	<u>40,473,983</u>	<u>12,498,355</u>	<u>52,972,338</u>	<u>18,040</u>
Liabilities:				
Current liabilities:				
Accounts payable	20,215	66,007	86,222	-
Accrued wages and benefits	41,642	47,774	89,416	1,794
Pension obligation payable	4,397	5,107	9,504	185
Accrued interest payable	19,208	2,282	21,490	-
Payable from restricted assets:				
Refundable deposits	53,353	-	53,353	-
Long-term liabilities:				
Compensated absences	152,263	194,054	346,317	-
General obligation bonds payable	10,310,000	1,225,000	11,535,000	-
OPWC loans payable	-	229,811	229,811	-
<i>Total liabilities</i>	<u>10,601,078</u>	<u>1,770,035</u>	<u>12,371,113</u>	<u>1,979</u>
Net assets:				
Invested in capital assets, net of related debt	13,921,284	8,420,783	22,342,067	-
Unrestricted	15,951,621	2,307,537	18,259,158	16,061
<i>Total net assets</i>	<u>\$ 29,872,905</u>	<u>\$ 10,728,320</u>	40,601,225	<u>\$ 16,061</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			<u>263</u>	
<i>Net assets of business-type activities</i>			<u>\$ 40,601,488</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, 2004

	Business-type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total	Activities - Internal Fund
Operating revenues:				
Charges for services	\$ 3,317,089	\$ 3,696,678	\$ 7,013,767	\$ 75,076
Tap-in fees	6,833	-	6,833	-
Other	22,561	3,879	26,440	-
<i>Total operating revenues</i>	<u>3,346,483</u>	<u>3,700,557</u>	<u>7,047,040</u>	<u>75,076</u>
Operating expenses:				
Personal services	1,452,998	1,641,240	3,094,238	55,445
Contractual services	182,889	367,087	549,976	3,487
Materials and supplies	595,040	382,660	977,700	4,921
Utilities expense	144,626	314,883	459,509	6,913
Depreciation	729,646	480,155	1,209,801	-
Other	59,680	73,972	133,652	1,352
<i>Total operating expenses</i>	<u>3,164,879</u>	<u>3,259,997</u>	<u>6,424,876</u>	<u>72,118</u>
<i>Operating income</i>	<u>181,604</u>	<u>440,560</u>	<u>622,164</u>	<u>2,958</u>
Nonoperating revenues (expenses):				
Interest revenue	152,241	6,723	158,964	-
Interest and fiscal charges	(419,865)	(56,101)	(475,966)	-
Intergovernmental	100,000	-	100,000	-
<i>Total nonoperating revenues (expenses)</i>	<u>(167,624)</u>	<u>(49,378)</u>	<u>(217,002)</u>	<u>-</u>
<i>Net income before capital contributions and transfers</i>	13,980	391,182	405,162	2,958
Capital contributions	8,796,666	-	8,796,666	-
Transfers in	515,127	327,199	842,326	-
<i>Changes in net assets</i>	9,325,773	718,381	10,044,154	2,958
<i>Net assets at beginning of year</i>	<u>20,547,132</u>	<u>10,009,939</u>		<u>13,103</u>
<i>Net assets at end of year</i>	<u>\$ 29,872,905</u>	<u>\$ 10,728,320</u>		<u>\$ 16,061</u>
Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds			<u>214</u>	
<i>Change in net assets of business-type activities</i>			<u>\$ 10,044,368</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, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Cash flows from operating activities:				
Cash received from charges for services	\$ 3,286,944	\$ 3,681,608	\$ 6,968,552	\$ 75,076
Cash received from tap-in fees	6,833	-	6,833	-
Cash received from other operations	33,001	3,879	36,880	-
Cash payments for personal services	(1,508,211)	(1,692,786)	(3,200,997)	(57,558)
Cash payments for contractual services	(195,601)	(364,118)	(559,719)	(3,487)
Cash payments for materials and supplies	(593,451)	(359,187)	(952,638)	(5,733)
Cash payments for utilities expense	(155,176)	(336,082)	(491,258)	(6,913)
Cash payments for other expenses	(69,777)	(73,972)	(143,749)	(1,352)
<i>Net cash provided by operating activities</i>	<u>804,562</u>	<u>859,342</u>	<u>1,663,904</u>	<u>33</u>
Cash flows from capital and related financing activities:				
Cash payments for the acquisition of capital assets	(5,811,396)	(727,104)	(6,538,500)	-
Cash received from transfers in	515,127	327,199	842,326	-
Cash received from capital contributions	8,796,666	-	8,796,666	-
Cash received from proceeds of the sale of capital assets	1,783	7,759	9,542	-
Cash received from proceeds of bonds	-	54,159	54,159	-
Cash received from other governments	100,000	-	100,000	-
Cash payments for principal retirement	(280,000)	(400,332)	(680,332)	-
Cash payments for interest and fiscal charges	(531,947)	(42,938)	(574,885)	-
<i>Net cash provided by (used in) capital and related financing activities</i>	<u>2,790,233</u>	<u>(781,257)</u>	<u>2,008,976</u>	<u>-</u>
Cash flows from investing activities:				
Cash received from interest earned	152,241	6,723	158,964	-
<i>Net cash provided by investing activities</i>	<u>152,241</u>	<u>6,723</u>	<u>158,964</u>	<u>-</u>
<i>Net increase in cash and cash equivalents</i>	3,747,036	84,808	3,831,844	33
<i>Cash and cash equivalents at beginning of year</i>	11,416,243	2,062,851	13,479,094	18,007
<i>Cash and cash equivalents at end of year</i>	<u>\$ 15,163,279</u>	<u>\$ 2,147,659</u>	<u>\$ 17,310,938</u>	<u>\$ 18,040</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 181,604	\$ 440,560	\$ 622,164	\$ 2,958
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	729,646	480,155	1,209,801	-
Changes in assets and liabilities:				
Increase in accounts receivable	(30,145)	(15,070)	(45,215)	-
Decrease in materials and supplies inventory	7,880	3,646	11,526	-
Increase (decrease) in accounts payable	(30,006)	982	(29,024)	(812)
Decrease in accrued wages and benefits	(35,088)	(41,870)	(76,958)	(1,421)
Increase (decrease) in compensated absences payable	(2,280)	10,709	8,429	-
Decrease in pension obligation payable	(17,392)	(19,770)	(37,162)	(692)
Increase in refundable deposits liability	343	-	343	-
<i>Net cash provided by operating activities</i>	<u>\$ 804,562</u>	<u>\$ 859,342</u>	<u>\$ 1,663,904</u>	<u>\$ 33</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 42,680
Cash in segregated accounts	8,922
Receivables:	
Accounts	<u>3,123</u>
<i>Total assets</i>	<u><u>\$ 54,725</u></u>
Liabilities:	
Due to other governments	\$ 32,679
Deposits held and due to others	<u>22,046</u>
<i>Total liabilities</i>	<u><u>\$ 54,725</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL

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**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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".

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.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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.

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

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

FIDUCIARY FUNDS

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

D. Measurement Focus and Basis of Accounting

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

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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 changes revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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

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

E. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, 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 6). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, charges for services, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees, grants and 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, 2004, but which were levied to finance year 2005 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.

F. Budgetary Process

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

Estimated Resources - The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include the actual unencumbered fund balances from the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines that revenue to be collected will be greater than or less than prior estimates and the County Budget Commission find the revised estimates to be reasonable. The

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

amounts set forth in the financial statements represent estimates from the first and final amended official certificate of estimated resources issued during 2004.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. The amounts set forth in the financial statements represent the original and final appropriations approved by City Council during 2004.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding year and are not reappropriated.

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

G. Cash and Investments

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

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

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities and nonnegotiable certificates of deposit.

Investments are reported at fair value, except for non-negotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner 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, 2004.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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 2004 was \$194,902, which includes \$155,591 assigned from other City funds.

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

H. Loans Receivable

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

I. Inventories of Materials and Supplies

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

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

J. Capital Assets

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

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 2004.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

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

K. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments as well as the sick leave accumulated by those employees expected to become eligible to receive termination benefits in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City’s union contracts or administrative ordinance. The City records a liability for accumulated unused sick leave for all employees with 10 or more years of services with the City up to a maximum of 500 hours.

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

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

L. Accrued Liabilities and Long-Term Obligations

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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

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

O. Restricted Assets

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

Restricted assets at December 31, 2004 are comprised of the following:

	Cash and <u>Cash Equivalents</u>
Customer Deposits	<u>\$ 53,353</u>

P. Unamortized Bond Issuance Costs

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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

Q. Estimates

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

R. Contributions of Capital

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

S. Net Assets

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

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

NOTE 3 – COMPLIANCE

The City did not file the annual certificate of appropriations nor any amendments with the County Auditor. This resulted in expenditures exceeding appropriations in all funds.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS – (Continued)

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

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

Interim monies may be deposited or invested in the following:

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

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*".

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

Deposits: At year-end, the carrying amount of the City's deposits was \$10,016,783 and the bank balance was \$10,365,993. Of the bank balance:

1. \$417,496 was covered by federal depository insurance; and
2. \$9,948,497 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments: The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or the City's agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

	Category 2	Fair Value
Federal agency securities	\$ 9,953,880	\$ 9,953,880
	\$ 9,953,880	
Investment in STAR Ohio		9,801,459
Total Investments		\$19,755,339

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

GASB Statement No. 9	\$29,772,322	\$ -
Investments of the cash management pool:		
Federal agency securities	(9,953,880)	9,953,880
Investment in STAR Ohio	(9,801,459)	9,801,459
Cash on hand	(200)	-
GASB Statement No. 3	\$10,016,783	\$19,755,339

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported in the fund financial statements:

Transfers from general fund to:	
Nonmajor governmental funds	\$ 521,481
Transfers from municipal income tax fund to:	
General fund	4,600,000
Capital improvement fund	1,600,000
Nonmajor governmental funds	920,000
Total transfers between governmental funds	7,641,481
Transfers from capital improvement fund to:	
Water fund	515,127
Sewer fund	327,199
Total transfers capital improvement fund	842,326
Total transfers	\$ 8,483,807

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 5 - INTERFUND TRANSFERS – (Continued)

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.

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 2004 represent the collection of 2003 taxes. For 2004, real property taxes were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. These taxes will be collected in and are intended to finance 2005 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, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value. Public utility tangible personal property currently is assessed at 88 percent of true value for taxable transmission and distribution property and 25 percent of true value for all other taxable property. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2004 (other than public utility property) represent the collection of 2003 taxes. For 2004, tangible personal property taxes were levied after October 1, 2003, on the true value as of December 31, 2003. These taxes will be collected in and are intended to finance 2004 operations. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2004. 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 2004 operations.

The full tax rate for all City operations for the year ended December 31, 2004, was \$3.20 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real property	\$ 222,871,710
Public utility	10,029,500
Tangible personal property	<u>69,821,185</u>
Total assessed value	<u><u>\$ 302,722,395</u></u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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 \$7,129,809 in 2004.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2004, 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, 2004, as well as intended to finance fiscal 2004 operations.

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

Governmental Activities:

Income taxes	\$2,214,342
Property and other local taxes	936,099
Accounts	172,974
Loans	240,194
Due from other governments	957,201

Business-type Activities:

Accounts	821,950
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the loans receivable.

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 2004, there were loans to four businesses with a total principal balance of \$240,194.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

<u>Governmental Activities:</u>	<u>Balance 12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/04</u>
Capital assets, not being depreciated:				
Land	\$ 798,709	\$ -	\$ -	\$ 798,709
Construction in progress	<u>151,368</u>	<u>380,268</u>	<u>-</u>	<u>531,636</u>
<i>Total capital assets, not being depreciated</i>	<u>950,077</u>	<u>380,268</u>	<u>-</u>	<u>1,330,345</u>
Capital assets, being depreciated:				
Land improvements	2,176,544	94,400	(4,157)	2,266,787
Buildings and improvements	10,580,716	66,280	(3,809)	10,643,187
Machinery and equipment	3,968,739	189,581	(119,105)	4,039,215
Infrastructure	<u>16,573,144</u>	<u>249,001</u>	<u>-</u>	<u>16,822,145</u>
<i>Total capital assets, being depreciated</i>	<u>33,299,143</u>	<u>599,262</u>	<u>(127,071)</u>	<u>33,771,334</u>
Less: accumulated depreciation:				
Land improvements	(297,219)	(85,563)	485	(382,297)
Buildings and improvements	(2,242,125)	(296,246)	2,412	(2,535,959)
Machinery and equipment	(2,398,059)	(313,166)	115,859	(2,595,366)
Infrastructure	<u>(6,354,172)</u>	<u>(671,056)</u>	<u>-</u>	<u>(7,025,228)</u>
<i>Total accumulated depreciation</i>	<u>(11,291,575)</u>	<u>(1,366,031)</u>	<u>118,756</u>	<u>(12,538,850)</u>
<i>Total capital assets, being depreciated, net</i>	<u>22,007,568</u>	<u>(766,769)</u>	<u>(8,315)</u>	<u>21,232,484</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 22,957,645</u>	<u>\$ (386,501)</u>	<u>\$ (8,315)</u>	<u>\$ 22,562,829</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u> 12/31/03	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 12/31/04
Capital assets, not being depreciated:				
Land	\$ 899,291	\$ -	\$ -	\$ 899,291
Construction in progress	<u>2,245,910</u>	<u>5,928,388</u>	<u>(149,648)</u>	<u>8,024,650</u>
<i>Total capital assets, not being depreciated</i>	<u>3,145,201</u>	<u>5,928,388</u>	<u>(149,648)</u>	<u>8,923,941</u>
Capital assets, being depreciated:				
Land improvements	261,580	27,762	-	289,342
Buildings and improvements	22,975,241	129,499	(27,133)	23,077,607
Machinery and equipment	6,168,963	231,661	(908,445)	5,492,179
Infrastructure	<u>13,547,506</u>	<u>496,393</u>	<u>-</u>	<u>14,043,899</u>
<i>Total capital assets, being depreciated</i>	<u>42,953,290</u>	<u>885,315</u>	<u>(935,578)</u>	<u>42,903,027</u>
Less: accumulated depreciation:				
Land improvements	(79,750)	(8,131)	-	(87,881)
Buildings and improvements	(8,869,711)	(627,313)	20,162	(9,476,862)
Machinery and equipment	(4,089,175)	(265,948)	780,319	(3,574,804)
Infrastructure	<u>(4,272,135)</u>	<u>(308,409)</u>	<u>-</u>	<u>(4,580,544)</u>
<i>Total accumulated depreciation</i>	<u>(17,310,771)</u>	<u>(1,209,801)</u>	<u>800,481</u>	<u>(17,720,091)</u>
<i>Total capital assets, being depreciated, net</i>	<u>25,642,519</u>	<u>(324,486)</u>	<u>(135,097)</u>	<u>25,182,936</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 28,787,720</u>	<u>\$ 5,603,902</u>	<u>\$ (284,745)</u>	<u>\$ 34,106,877</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 10 - CAPITAL ASSETS - (Continued)

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

Governmental Activities:

General government	\$ 67,959
Security of persons and property	161,736
Transportation	773,719
Leisure time activities	346,391
Economic development	<u>16,226</u>
Total depreciation expense - governmental activities	<u>\$ 1,366,031</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. The City's long term obligations at December 31, 2004 were as follows:

	Balance				Balance	Amounts
	<u>12/31/03</u>	<u>Additions</u>	<u>Reductions</u>		<u>12/31/04</u>	<u>Due in</u>
<u>Governmental Activities:</u>						<u>One Year</u>
<u>General Obligation Bonds</u>						
Community Center - 1999 issue	\$4,115,000	\$ -	\$(180,000)		\$3,935,000	\$190,000
<u>Pension Liability</u>						
Police and fire pension	846,784	-	(13,206)		833,578	13,774
<u>Other Long-Term Obligations</u>						
Compensated absences	<u>664,888</u>	<u>-</u>	<u>(16,648)</u>		<u>648,240</u>	<u>60,959</u>
Total governmental obligations	<u>\$5,626,672</u>	<u>\$ -</u>	<u>\$(209,854)</u>		<u>\$5,416,818</u>	<u>\$264,733</u>

General Obligation Bonds

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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

<u>Business-Type Activities:</u>	Balance 12/31/03	Additions	Reductions	Balance 12/31/04	Amounts Due in One Year
<u>General Obligation Bonds</u>					
Water - 2003 issue	\$ 5,710,000	\$ -	\$ (150,000)	\$ 5,560,000	\$ 200,000
Water - 2003 issue	2,530,000	-	(70,000)	2,460,000	95,000
Sewer - 2003 issue	1,615,000	-	(390,000)	1,225,000	405,000
Water - 2003 issue	<u>2,350,000</u>	<u>-</u>	<u>(60,000)</u>	<u>2,290,000</u>	<u>80,000</u>
Total	<u>12,205,000</u>	<u>-</u>	<u>(670,000)</u>	<u>11,535,000</u>	<u>780,000</u>
<u>OPWC Loans</u>					
Sewer - 2001 issue	185,984	-	(10,332)	175,652	10,333
Sewer - 2004 issue	<u>-</u>	<u>54,159</u>	<u>-</u>	<u>54,159</u>	<u>-</u>
Total	<u>185,984</u>	<u>54,159</u>	<u>(10,332)</u>	<u>229,811</u>	<u>10,333</u>
<u>Other Long-Term Obligations</u>					
Compensated absences	<u>337,888</u>	<u>8,429</u>	<u>-</u>	<u>346,317</u>	<u>46,310</u>
Total business-type activities	<u>\$ 12,728,872</u>	<u>\$ 62,588</u>	<u>\$ (680,332)</u>	<u>\$ 12,111,128</u>	<u>\$ 836,643</u>

General Obligation Bonds - Water - 2003 Issue

The general obligation bonds were originally issued in 1994 for \$6,130,000, were reissued in 2003 for \$5,710,000, and carry an interest rate of 2 to 5 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the water fund. The general obligation bonds were issued for improvements to the water plant and facilities. A portion of the proceeds of the bonds were used for the advance refunding of the 1994 general obligation bonds. These proceeds were used to purchase state and local government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The balance of the refunded bonds at December 31, 2004 is \$5,045,000, 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.

General Obligation Bonds - Water - 2003 Issue

The general obligation bonds were issued in 2003 for \$2,530,000, and carry an interest rate of 2 to 5 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the water fund. The general obligation bonds were issued for improvements to the water plant and facilities.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds - Sewer - 2003 Issue

The general obligation bonds were originally issued in 1993 for \$4,305,000, were reissued in 2003 for \$1,615,000, and carry an interest rate of 2 to 2.25 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the sewer fund. The general obligation bonds were issued for improvements to the sewer plant and facilities. A portion of the proceeds of the bonds were used for the advance refunding of the 1993 general obligation bonds. These proceeds were used to purchase state and local government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The balance of the refunded bonds at December 31, 2004 is \$1,180,000, 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.

General Obligation Bonds - Water - 2003 Issue

The general obligation bonds were originally issued in 1994 for \$2,745,000, were reissued in 2003 for \$2,350,000, and carry an interest rate of 2 to 5 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the water fund. The general obligation bonds were issued for improvements to the water plant and facilities. A portion of the proceeds of the bonds were used for the advance refunding of the 1994 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, 2004 is \$2,260,000, 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.

OPWC Loans

The OPWC loans were granted from the Ohio Public Works Commission in 2001 and do not carry an interest rate. The OPWC loans are an obligation of the sewer fund, and the principal payments are paid from the sewer fund. The OPWC loan proceeds were used for improvements to the sewer plant and facilities. During fiscal 2004, the City entered into a new OPWC loan for \$177,840 and received \$54,159 in loan proceeds. This loan will be finalized during fiscal 2005, when the remaining loan proceeds of \$123,681 will be received.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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, 2004 are as follows:

Year	Community Center General Obligation Bonds			Police and Fire Pension Liability		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 190,000	\$ 184,128	\$ 374,128	\$ 13,774	\$ 35,282	\$ 49,056
2006	195,000	176,527	371,527	14,365	34,691	49,056
2007	205,000	168,630	373,630	14,982	34,074	49,056
2008	215,000	158,790	373,790	15,626	33,430	49,056
2009	225,000	148,363	373,363	16,297	32,759	49,056
2010 - 2014	1,280,000	581,167	1,861,167	92,607	152,673	245,280
2015 - 2019	1,625,000	243,712	1,868,712	114,278	131,002	245,280
2020 - 2024	-	-	-	141,023	104,257	245,280
2025 - 2029	-	-	-	174,020	71,260	245,280
2030 - 2035	-	-	-	236,606	30,999	267,605
Total	<u>\$3,935,000</u>	<u>\$1,661,317</u>	<u>\$5,596,317</u>	<u>\$ 833,578</u>	<u>\$660,427</u>	<u>\$1,494,005</u>

Year	Water - 2003 Issue General Obligation Bonds			Water - 2003 Issue General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 200,000	\$ 226,459	\$ 426,459	\$ 95,000	\$ 98,606	\$ 193,606
2006	200,000	222,459	422,459	95,000	96,706	191,706
2007	210,000	217,959	427,959	95,000	94,569	189,569
2008	215,000	213,234	428,234	100,000	92,431	192,431
2009	220,000	206,784	426,784	105,000	89,431	194,431
2010 - 2014	1,205,000	910,731	2,115,731	575,000	388,606	963,606
2015 - 2019	1,465,000	647,212	2,112,212	705,000	262,295	967,295
2020 - 2024	1,845,000	283,550	2,128,550	690,000	87,451	777,451
Total	<u>\$5,560,000</u>	<u>\$2,928,388</u>	<u>\$8,488,388</u>	<u>\$2,460,000</u>	<u>\$1,210,095</u>	<u>\$3,670,095</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Year	Sewer - 2003 Issue General Obligation Bonds			Water - 2003 Issue General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 405,000	\$ 26,550	\$ 431,550	\$ 80,000	\$ 93,292	\$ 173,292
2006	405,000	18,450	423,450	85,000	91,692	176,692
2007	415,000	9,337	424,337	85,000	89,780	174,780
2008	-	-	-	90,000	87,868	177,868
2009	-	-	-	90,000	85,168	175,168
2010 - 2014	-	-	-	500,000	375,368	875,368
2015 - 2019	-	-	-	605,000	266,250	871,250
2020 - 2024	-	-	-	755,000	116,325	871,325
Total	<u>\$1,225,000</u>	<u>\$ 54,337</u>	<u>\$1,279,337</u>	<u>\$2,290,000</u>	<u>\$1,205,743</u>	<u>\$3,495,743</u>

Year	Sewer - 2001 Issue OPWC Loans		
	Principal	Interest	Total
2005	\$ 10,333	\$ -	\$ 10,333
2006	10,332	-	10,332
2007	10,333	-	10,333
2008	10,332	-	10,332
2009	10,333	-	10,333
2010 - 2014	51,662	-	51,662
2015 - 2019	51,663	-	51,663
2020 - 2024	20,664	-	20,664
Total	<u>\$ 175,652</u>	<u>\$ -</u>	<u>\$ 175,652</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, 2004, the City's total debt margin was \$18,743,056, and the unvoted debt margin was \$3,606,937; both amounts include available funds of \$137,205.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - OTHER EMPLOYEE BENEFITS – (Continued)

Upon retirement, police officers and firefighters are paid for 33½ percent of their accumulated hours of sick leave, up to 1,800 hours for a maximum payout of 600 hours. All other employees are paid for 42 percent of their accumulated hours of sick leave, up to 1,200 hours for a maximum payout of 500 hours. Upon retirement, termination, or death of the employee, accrued vacation is paid for time the employees have earned but not yet used.

As of December 31, 2004, the liability for unpaid compensated absences reported in governmental activities was \$648,240. The liability for compensated absences in business-type activities was \$346,317 at December 31, 2004. The total liability for the City's compensated absences was \$994,557.

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.

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

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

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

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 14 - DEFINED BENEFIT PENSION PLANS – (Continued)

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

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$599,924, \$592,456, and \$569,195, respectively; 100% has been contributed for 2004, 2003 and 2002. There is no unpaid contribution for 2004, and there is no liability as of December 31, 2004.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$334,610 and \$282,790 for the year ended December 31, 2004, \$318,862 and \$277,031 for the year ended December 31, 2003, and \$313,151 and \$272,069 for the year ended December 31, 2002. 72.02 percent has been contributed for 2004 and 100 percent for the years 2003 and 2002. \$172,783, representing the unpaid contributions for 2004, is recorded as a liability within the respective funds.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)

care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, “*Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers*”. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 percent and 6.00 percent annually for the next eight years and 4.00 percent after eight years.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$177,099. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 15 - POSTEMPLOYMENT BENEFITS – (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, “*Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers*”. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund’s board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer’s contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004. 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 2004 that were used to fund postemployment benefits was \$132,840 for police and \$91,341 for firefighters. The OP&F’s total health care expense for the year ended December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 (the latest information available), was 13,662 for police and 10,474 for firefighters.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

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

**CITY OF FREMONT
SANDUSKY COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 16 – BUDGETARY BASIS OF ACCOUNTING - (Continued)

Net Change in Fund Balance

	General	Municipal Income Tax
Budget basis	\$ (97,241)	\$(353,659)
Net adjustment for revenue accruals	(431)	158,627
Net adjustment for expenditure accruals	156,115	6,713
Adjustment for encumbrances	55,272	617
GAAP basis	\$ 113,715	\$(187,702)

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, 2004.

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.

NOTE 18 – CONTRACTS

The City has contracts outstanding as of December 31, 2004 in the amount of \$4,556,552 for water treatment plant improvements.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the City Council:

We have audited the financial statements of the City of Fremont, Sandusky County, (the City) as of and for the year ended December 31, 2004, and have issued our report thereon dated December 20, 2005, which was qualified for our inability to obtain sufficient evidential matter supporting the amounts reported as income tax revenue and the related budgetary comparisons. Except as discussed in the previous sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-001 listed above to be a material weakness. In a separate letter to the City's management dated December 20, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-002. In a separate letter to the City's management dated December 20, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

December 20, 2005

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

FINDING NUMBER 2004-001

Material Weakness – Income Tax

The City would like to have assurance they are collecting the income tax revenue that is due according to their ordinances and state law. The City Income Tax Department records did not include all residents of the City of Fremont. There was no assurance all revenues due to the City had been collected on the income tax accounting system.

The City implemented a plan to identify all taxpayers by amending the Codified Ordinances of the City to require mandatory filing effective January 1, 2005, for tax year 2004. In addition, the City implemented the Regional Income Tax Agency (RITA) in the beginning of 2005 to ensure all taxpayers are properly included. Since implementing this program, the number of returns filed has increased from 9,400 to 14,000. Revenues in 2005 have increased approximately twelve percent as compared to the same time in fiscal year 2004.

We recommend the City implement procedures to ensure all taxpayers are identified such as reviewing water bills, business applications, etc. We further recommend the City perform the aforementioned procedures during the open statute of limitations period and undertake appropriate collection efforts if deemed significant.

FINDING NUMBER 2004-002

Ohio Revised Code § 5705.39 provides in part that the total appropriations from each fund shall not exceed the total estimated resources for expenditure there from, as certified by the budget commission or in case of appeal, by the board of tax appeals. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimated or amended official estimate. Furthermore, **Ohio Revised Code § 5705.41(B)** prohibits a subdivision from making an expenditure unless it has been properly appropriated.

The City did not file their appropriation with the County Auditor. Therefore, none of the City's appropriations were in effect and all expenditures exceeded appropriations in all funds. We recommend the City Auditor file the appropriations and any amendments with the County Auditor.

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**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Material Weakness – Income Tax	No	Repeated as Finding # 2004-001.



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**CITY OF FREMONT
SANDUSKY COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 30, 2005**