



Dave Yost • Auditor of State

**CITY OF FREMONT
SANDUSKY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fremont, Sandusky County, Ohio, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 3 to the financial statements, during the year ended December 31, 2012, the City adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

As discussed in Note 20, the subsequent events note has been updated to include an additional loan.

As discussed in Note 21 to the financial statements, the 2012 financial statements have been restated to correct misstatements to construction in progress and contracts payable. This restatement does not affect our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the City's basic financial statements taken as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to January 9, 2014. The Federal Awards Expenditure Schedule is presented for the purposes of additional analysis and is not a required part of the financial statements.

The Federal Award Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

Other Matters- (Continued)

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

September 20, 2013, except for Notes 20 and 21, which are as of January, 9, 2014 and the Federal Awards Expenditures Schedule, which is as of January 5, 2016.

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**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

The management's discussion and analysis of the City of Fremont's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. 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 2012 are as follows:

- The City restated net position at December 31, 2011, for both the governmental activities and business-type activities as described in Note 3.A to the basic financial statements. The total net position of the City increased \$4,279,719 or 4.74% from 2011. Net position of governmental activities decreased \$636,316 or 2.01% from 2011 and net position of business-type activities increased \$4,916,035 or 8.38% over 2011.
- General revenues accounted for \$9,536,944 or 76.04% of total governmental activities revenue. Program specific revenues accounted for \$3,004,438 or 23.96% of total governmental activities revenue.
- The City had \$13,098,327 in expenses related to governmental activities; \$3,004,438 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$10,093,889 were partially offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$9,536,944.
- The City restated fund balance at December 31, 2011, for both the general fund and other governmental funds as described in Note 3.B to the basic financial statements. The general fund had revenues and other financing sources of \$10,054,473 in 2012. This represents a decrease of \$156,992 or 1.54% from 2011. The expenditures and other financing uses of the general fund, which totaled \$10,101,256 in 2012, decreased \$887,567 or 8.08% from 2011. The net decrease in fund balance for the general fund was \$46,783 or 0.88%.
- Net position for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2012 by \$4,916,035. This increase in net position was due primarily to increased charges for services and decreases in contract services during the year.
- In the general fund, actual revenues and other financing sources were \$1,078,404 more than the final budget revenues and other financing sources, and actual expenditures and other financing uses were \$537,783 less than the final budget expenditures and other financing uses. These variances are the result of the City's conservative budgeting. Budgeted expenditures and other financing uses increased \$803,689 from the original budget to the final budget, primarily due to an increase in general government expenditures and transfers out.

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 position 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

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
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finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Position 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 2012?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, 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 position and changes in that position. This change in net position 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 position and the statement of activities, the City is divided into two distinct kinds of activities:

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

**CITY OF FREMONT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
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(Continued)**

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 fund is the general fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation.

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. Certain asset, deferred outflow, liability, deferred inflow, and net position classifications have been restated by the City for 2011 to conform to 2012 presentation in accordance with GASB Statement No. 63 and GASB Statement No. 65. The net position of the City was restated at December 31, 2011 as described in Note 3.A to the basic financial statements. The table below provides a summary of the City's net position at December 31, 2012 and December 31, 2011.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

	Net Position					
	Governmental Activities		Business-type Activities		2012 Total	(Restated) 2011 Total
	2012	(Restated) 2011	2012	(Restated) 2011		
Assets						
Current and other assets	\$ 15,299,680	\$ 15,014,156	\$ 18,789,113	\$ 13,658,854	\$ 34,088,793	\$ 28,673,010
Capital assets, net	<u>21,207,807</u>	<u>22,296,153</u>	<u>85,129,103</u>	<u>68,835,530</u>	<u>106,336,910</u>	<u>91,131,683</u>
Total assets	<u>36,507,487</u>	<u>37,310,309</u>	<u>103,918,216</u>	<u>82,494,384</u>	<u>140,425,703</u>	<u>119,804,693</u>
Deferred Outflows	<u>89,242</u>	<u>102,628</u>	-	-	<u>89,242</u>	<u>102,628</u>
Liabilities						
Long-term liabilities outstanding	3,810,091	4,091,186	30,067,324	23,005,080	33,877,415	27,096,266
Other liabilities	<u>989,753</u>	<u>842,692</u>	<u>10,297,401</u>	<u>851,848</u>	<u>11,287,154</u>	<u>1,694,540</u>
Total liabilities	<u>4,799,844</u>	<u>4,933,878</u>	<u>40,364,725</u>	<u>23,856,928</u>	<u>45,164,569</u>	<u>28,790,806</u>
Deferred Inflows	<u>707,578</u>	<u>753,436</u>	-	-	<u>707,578</u>	<u>753,436</u>
Net Position						
Net investment in capital assets	19,037,516	19,746,237	45,686,516	46,192,511	64,724,032	65,938,748
Restricted	3,500,986	3,162,907	-	-	3,500,986	3,162,907
Unrestricted	<u>8,550,805</u>	<u>8,816,479</u>	<u>17,866,975</u>	<u>12,444,945</u>	<u>26,417,780</u>	<u>21,261,424</u>
Total net position	<u>\$ 31,089,307</u>	<u>\$ 31,725,623</u>	<u>\$ 63,553,491</u>	<u>\$ 58,637,456</u>	<u>\$ 94,642,798</u>	<u>\$ 90,363,079</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets and deferred outflows exceeded liabilities and deferred inflows by \$94,642,798. At year-end, net positions were \$31,089,307 and \$63,553,491 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 position. At year-end, capital assets represented 75.72% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress. The net investment in capital assets at December 31, 2012, were \$19,037,516 and \$45,686,516 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, 2012, the City is able to report positive balances in all three categories of net position, 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 position, \$3,500,986 represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$8,550,805 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, 2012
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(Continued)**

The table below shows the changes in net position for fiscal years 2012 and 2011.

	Change in Net Position					
	Governmental Activities	(Restated) Governmental	Business-type Activities	(Restated) Business-type	2012 Total	(Restated)
		2012		2011		2012
Revenues						
Program revenues:						
Charges for services	\$ 1,046,665	\$ 1,028,013	\$ 13,324,636	\$ 10,992,385	\$ 14,371,301	\$ 12,020,398
Operating grants and contributions	1,517,925	1,187,120	-	-	1,517,925	1,187,120
Capital grants and contributions	<u>439,848</u>	<u>1,094,265</u>	<u>875,715</u>	<u>2,464,462</u>	<u>1,315,563</u>	<u>3,558,727</u>
Total program revenues	<u>3,004,438</u>	<u>3,309,398</u>	<u>14,200,351</u>	<u>13,456,847</u>	<u>17,204,789</u>	<u>16,766,245</u>
General revenues:						
Property taxes	949,317	997,392	-	-	949,317	997,392
Income taxes	7,385,935	7,073,674	-	-	7,385,935	7,073,674
Unrestricted grants and entitlements	820,319	949,469	-	-	820,319	949,469
Investment earnings	20,389	100,801	23,744	1,076	44,133	101,877
Miscellaneous	<u>360,984</u>	<u>241,449</u>	<u>25,673</u>	<u>60,147</u>	<u>386,657</u>	<u>301,596</u>
Total general revenues	<u>9,536,944</u>	<u>9,362,785</u>	<u>49,417</u>	<u>61,223</u>	<u>9,586,361</u>	<u>9,424,008</u>
Total revenues	<u>12,541,382</u>	<u>12,672,183</u>	<u>14,249,768</u>	<u>13,518,070</u>	<u>26,791,150</u>	<u>26,190,253</u>
Expenses:						
General government	2,401,425	2,308,102	-	-	2,401,425	2,308,102
Security of persons and property	6,419,803	6,799,182	-	-	6,419,803	6,799,182
Public health and welfare	3,845	4,302	-	-	3,845	4,302
Transportation	1,522,610	1,816,371	-	-	1,522,610	1,816,371
Community environment	486,881	507,123	-	-	486,881	507,123
Leisure time activity	1,961,433	2,041,218	-	-	1,961,433	2,041,218
Economic development	155,412	93,681	-	-	155,412	93,681
Contract services	-	6,108	-	-	-	6,108
Interest and fiscal charges	106,939	115,362	-	-	106,939	115,362
Bond issuance costs	39,979	-	-	-	39,979	-
Water	-	-	5,504,317	5,504,421	5,504,317	5,504,421
Sewer	-	-	<u>3,908,787</u>	<u>3,580,532</u>	<u>3,908,787</u>	<u>3,580,532</u>
Total expenses	<u>13,098,327</u>	<u>13,691,449</u>	<u>9,413,104</u>	<u>9,084,953</u>	<u>22,511,431</u>	<u>22,776,402</u>
Increase (decrease) in net position before transfers	(556,945)	(1,019,266)	4,836,664	4,433,117	4,279,719	3,413,851
Transfers	<u>(79,371)</u>	<u>(673,109)</u>	<u>79,371</u>	<u>673,109</u>	-	-
Increase (decrease) in net position	(636,316)	(1,692,375)	4,916,035	5,106,226	4,279,719	3,413,851
Net position at beginning of year (restated)	<u>31,725,623</u>	<u>33,417,998</u>	<u>58,637,456</u>	<u>53,531,230</u>	<u>90,363,079</u>	<u>86,949,228</u>
Net position at end of year	<u>\$ 31,089,307</u>	<u>\$ 31,725,623</u>	<u>\$ 63,553,491</u>	<u>\$ 58,637,456</u>	<u>\$ 94,642,798</u>	<u>\$ 90,363,079</u>

Governmental Activities

Governmental activities net position decreased \$636,316 in 2012. This decrease is a result of decreased revenues.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
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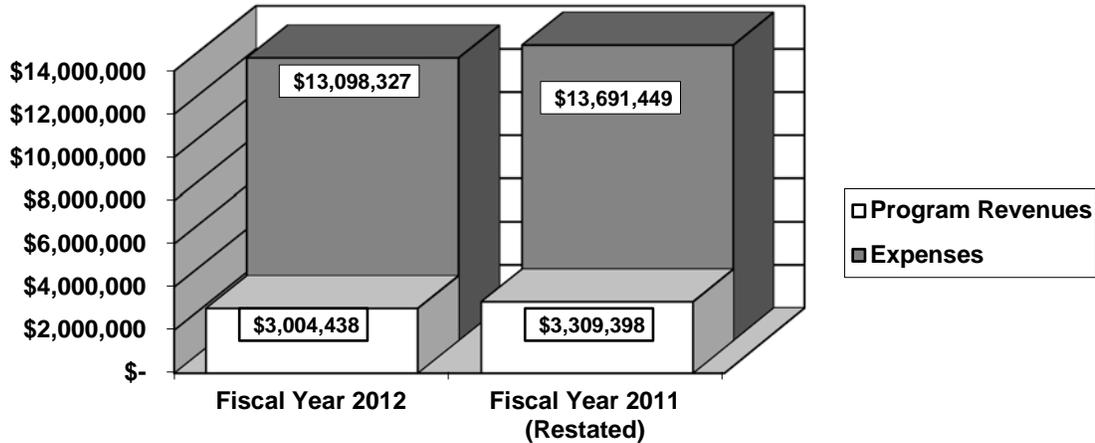
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$6,419,803 of the total expenses of the City. These expenses were partially funded by \$46,831 in direct charges to users of the services. General government expenses totaled \$2,401,425. General government expenses were partially funded by \$536,249 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$1,517,925 in operating grants and contributions and \$439,848 in capital improvement and contributions. These revenues are restricted to a particular program or purpose. Of the total capital improvement and contributions, \$432,732 subsidized transportation programs. Of the total operating grants and contributions, \$1,200,302 subsidized transportation programs, and \$261,832 subsidized community environment activities.

General revenues totaled \$9,536,944, and amounted to 76.04% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,335,252. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue making up \$820,319.

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. The net position of the City was restated at December 31, 2011, as described in Note 3.A to the basic financial statements.

Governmental Activities – Program Revenues vs. Total Expenses



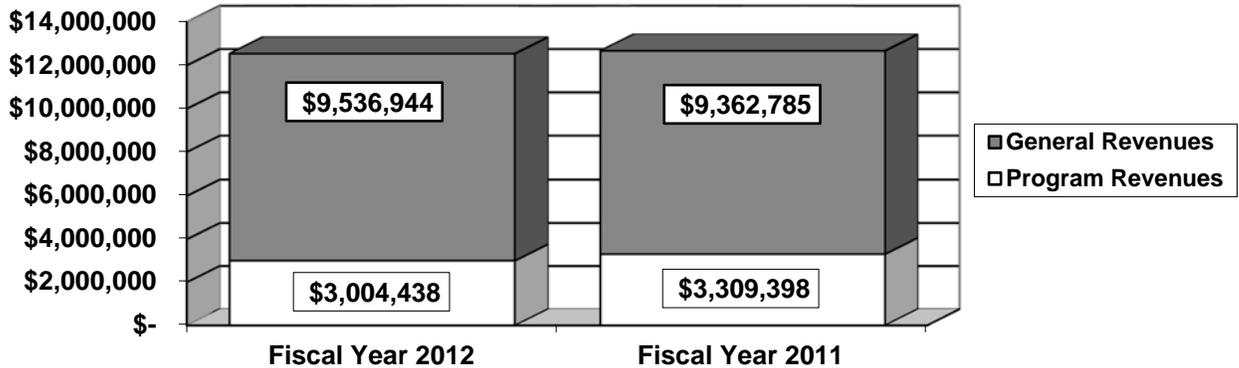
**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

	Governmental Activities			
	Total Cost of Services 2012	Net Cost of Services 2012	(Restated) Total Cost of Services 2011	(Restated) Net Cost of Services 2011
Program Expenses:				
General government	\$ 2,401,425	\$ 1,856,078	\$ 2,308,102	\$ 1,818,709
Security of persons and property	6,419,803	6,362,606	6,799,182	6,725,754
Public health and welfare	3,845	3,845	4,302	4,302
Transportation	1,522,610	(153,896)	1,816,371	(78,406)
Community environment	486,881	225,049	507,123	124,579
Leisure time activity	1,961,433	1,508,355	2,041,218	1,585,676
Economic development	155,412	144,934	93,681	85,912
Contract services	-	-	6,108	163
Interest and fiscal charges	106,939	106,939	115,362	115,362
Bond issuance costs	39,979	39,979	-	-
Total	\$ 13,098,327	\$ 10,093,889	\$ 13,691,449	\$ 10,382,051

The dependence upon general revenues for governmental activities is apparent, with 77.06% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



Business-type Activities

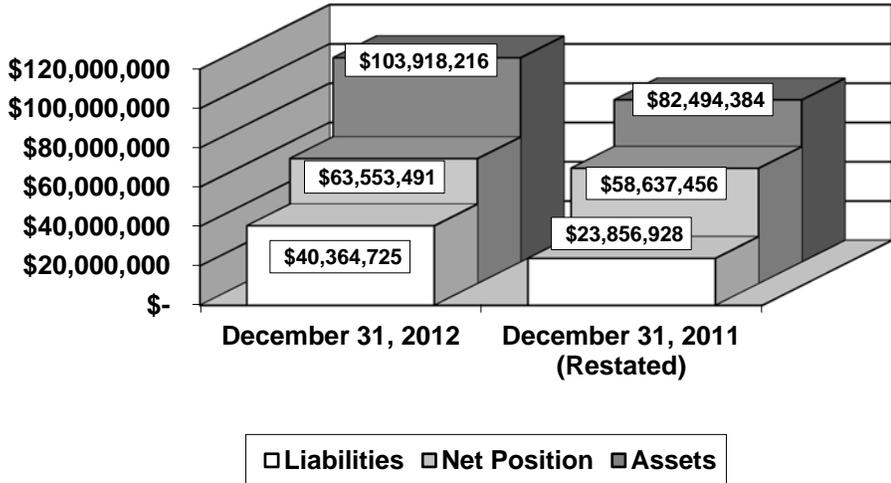
Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$14,200,351, general revenues of \$49,417, transfers in of \$79,371 and expenses of \$9,413,104 for 2012.

The net position of the City was restated at December 31, 2011 as described in Note 3.A to the basic financial statements. The graph below illustrates the City's business-type assets, liabilities, and net position at December 31, 2012 and December 31, 2011.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Net position in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds reported a combined fund balance of \$11,543,648 which is \$497,917 more than last year's total of \$11,045,731. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2012, for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/12</u>	Fund Balances <u>12/31/11</u>	Increase <u>(Decrease)</u>
General fund	\$ 5,246,339	\$ 5,293,122	\$ (46,783)
Other nonmajor governmental funds	<u>6,297,309</u>	<u>5,752,609</u>	<u>544,700</u>
Total	<u>\$ 11,543,648</u>	<u>\$ 11,045,731</u>	<u>\$ 497,917</u>

General Fund

The City's general fund balance decreased \$46,783. The table that follows assists in illustrating the revenues of the general fund.

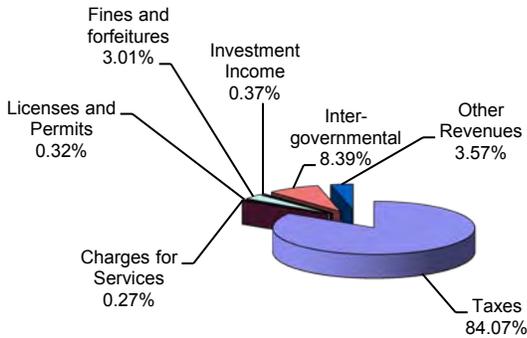
**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

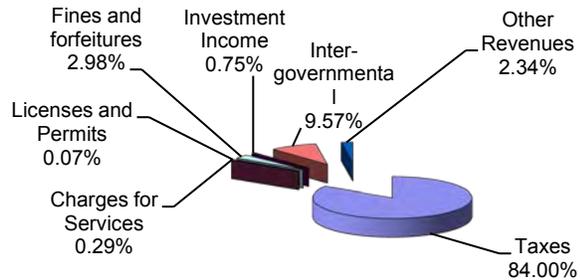
	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 8,436,269	\$ 8,577,181	(1.64) %
Charges for services	27,308	29,388	(7.08) %
Licenses and permits	31,691	6,638	377.42 %
Fines and forfeitures	301,737	304,720	(0.98) %
Intergovernmental	841,415	977,728	(13.94) %
Investment income	37,602	76,926	(51.12) %
Other	<u>358,451</u>	<u>238,884</u>	50.05 %
Total	<u>\$ 10,034,473</u>	<u>\$ 10,211,465</u>	(1.73) %

Tax revenue represents 84.07% of all general fund revenue. The increase in licenses and permits is due to the City receiving internet café permits in 2012. Intergovernmental revenues decreased 13.94% due to the City receiving less inheritance tax in 2012. The decrease in investment income is due to lower interest rates on the City's investment portfolio. The increase in other revenues is due to an increase in refunds, reimbursements, and other miscellaneous revenues in 2012. All other revenue remained comparable to 2011.

Revenues – Fiscal Year 2012



Revenues – Fiscal Year 2011



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

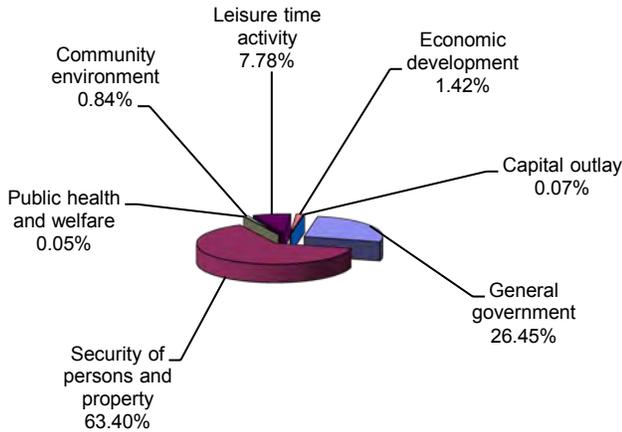
	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 2,215,058	\$ 2,170,122	2.07 %
Security of persons and property	5,308,636	5,667,847	(6.34) %
Public health and welfare	3,768	4,246	(11.26) %
Community environment	70,227	125,413	(44.00) %
Leisure time activity	651,527	671,287	(2.94) %
Economic development	118,875	114,745	3.60 %
Capital outlay	<u>5,165</u>	<u>11,418</u>	(54.76) %
Total	<u>\$ 8,373,256</u>	<u>\$ 8,765,078</u>	(4.47) %

**CITY OF FREMONT
SANDUSKY COUNTY**

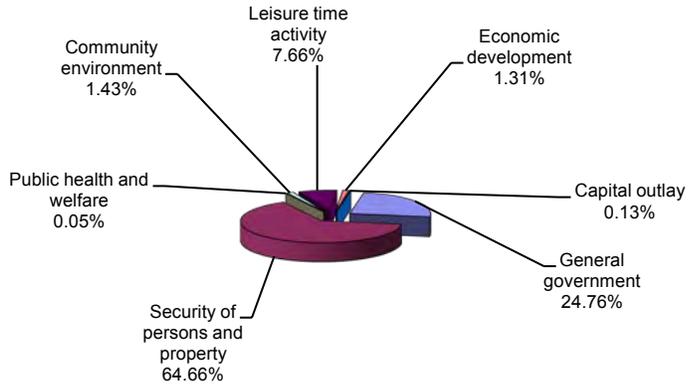
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

Community environment expenditures decreased 44.00% due to a decrease in zoning and planning expenditures. All other expenditures remained comparable to 2012.

Expenditures - Fiscal Year 2012



Expenditures - Fiscal Year 2011



Budgeting Highlights

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

Budgetary information is presented for the general fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures and other financing uses, which increased \$803,689 from \$8,989,835 to \$9,793,524. Actual revenues and other financing sources of \$9,183,404 were more than final budgeted revenues and other financing sources by \$1,078,404. The other significant change was between the final budgeted expenditures and other financing uses and actual expenditures and other financing uses. Actual expenditures and other financing uses came in \$537,783 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

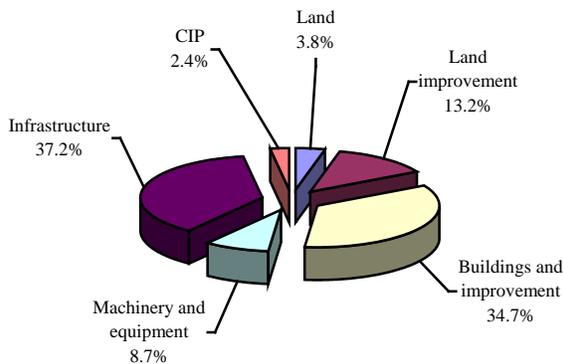
At the end of fiscal 2012, the City had \$106,336,910 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress (CIP). Of this total, \$21,207,807 was reported in governmental activities and \$85,129,103 was reported in business-type activities. The following table shows fiscal 2012 balances compared to 2011:

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

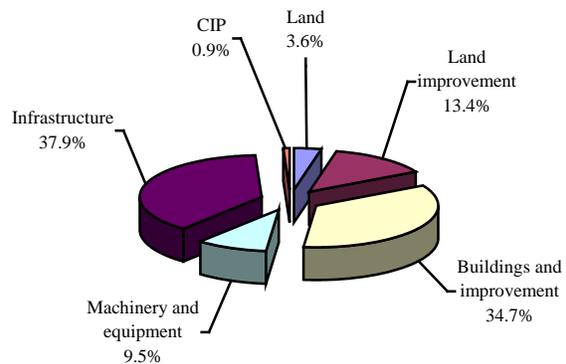
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 809,559	\$ 809,559	\$ 903,988	\$ 903,988	\$ 1,713,547	\$ 1,713,547
Land improvements	2,790,132	2,986,423	1,195,757	1,239,622	3,985,889	4,226,045
Buildings and improvements	7,367,011	7,732,289	19,611,933	20,787,030	26,978,944	28,519,319
Machinery and equipment	1,841,856	2,127,457	2,026,933	2,337,278	3,868,789	4,464,735
Infrastructure	7,896,669	8,446,923	15,558,398	15,986,289	23,455,067	24,433,212
Construction in progress	502,580	193,502	45,832,094	27,581,323	46,334,674	27,774,825
Totals	<u>\$ 21,207,807</u>	<u>\$ 22,296,153</u>	<u>\$ 85,129,103</u>	<u>\$ 68,835,530</u>	<u>\$ 106,336,910</u>	<u>\$ 91,131,683</u>

The following graphs show the breakdown of governmental capital assets by category for 2012 and 2011.

Capital Assets - Governmental Activities 2012



Capital Assets - Governmental Activities 2011

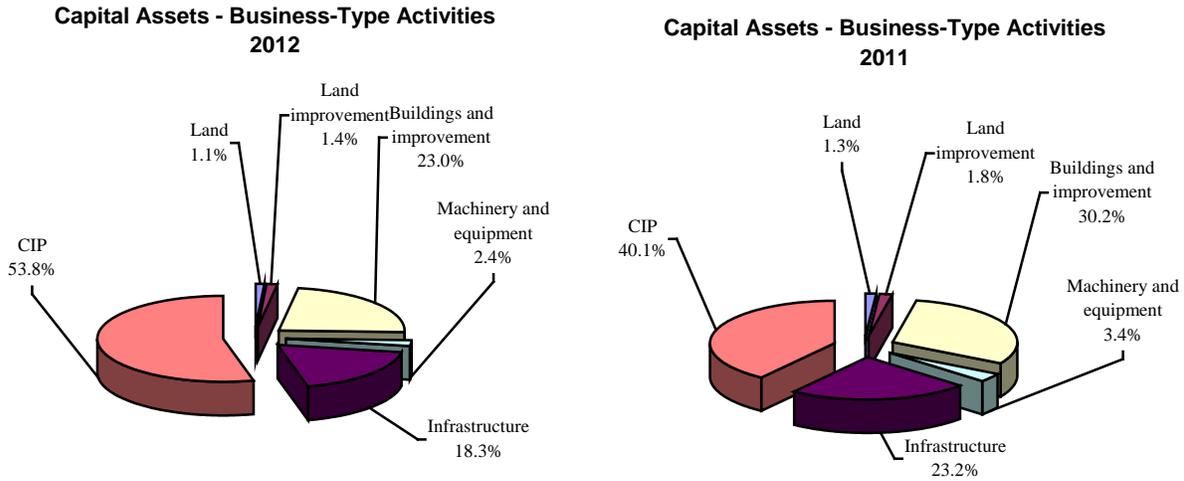


The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 37.2% of the City's total governmental capital assets.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

The following graphs show the breakdown of business-type capital assets by category for 2012 and 2011.



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 18.28% of the City's total business-type capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2012 and 2011:

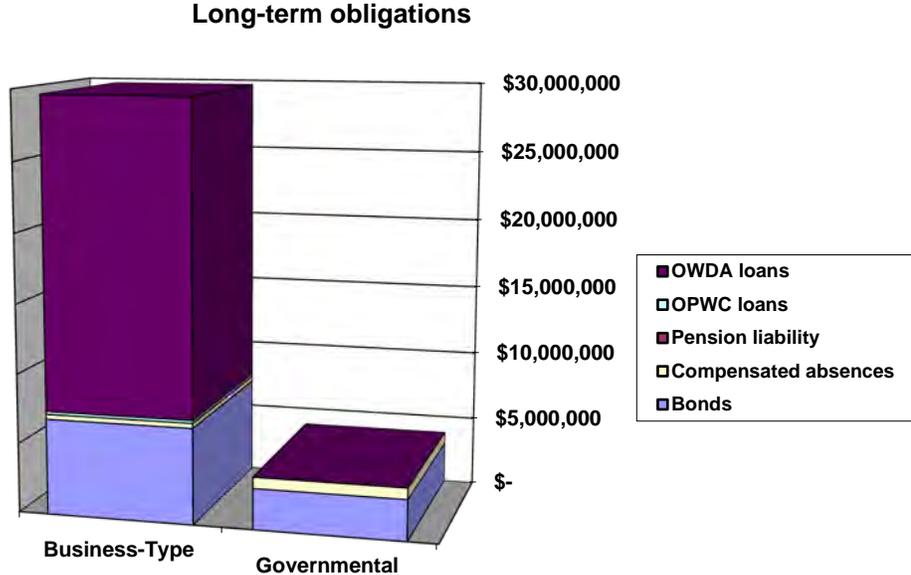
	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Compensated absences	\$ 805,558	\$ 817,460
General obligation bonds	2,940,000	2,480,000
Pension liability	<u>-</u>	<u>723,810</u>
Total long-term obligations	<u>\$ 3,745,558</u>	<u>\$ 4,021,270</u>

	<u>Business-type Activities</u>	
	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 6,900,000	\$ 7,490,000
OPWC loans	204,143	223,367
OWDA loans	22,200,047	14,929,652
Compensated absences	<u>358,419</u>	<u>362,061</u>
Total long-term obligations	<u>\$ 29,662,609</u>	<u>\$ 23,005,080</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

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



Economic Conditions and Outlook

During 2012, the City of Fremont’s economic development office was very active in marketing efforts, legislative activities and business lead generation with the Sandusky County Economic Development Corporation (SCEDC), Northwest Ohio Regional Economic Development Association (NORED), Regional Growth Partnership (RGP) and JobsOhio. Fremont’s economic development director is on the board of trustees for SCEDC and NORED previously holding officer positions and chairing various committees on both boards. Regional economic development continues to be a successful effort in Northwest Ohio. Collaborating and sharing of resources increases the quality of service for business and industry and results in more development projects.

The City of Fremont took an active role in writing the Economic Development section of The Sandusky County Comprehensive Plan 2003. The plan was reviewed in 2012 and although many of the strategies in that plan continue to be used today, discussions began on renewing the plan within the next 12-18 months.

The City of Fremont has an established Enterprise Zone and Community Reinvestment Area that offers real property tax abatement for new investments resulting in job creation or retention. Additionally, the City has a Revolving Loan Fund program that provides low interest loans to qualifying businesses. These programs are used as incentives to entice business development.

The City has been active in a regional Supplier Recruitment Program that identifies suppliers to local businesses that may have a need to locate closer to their customer. However, the retention and expansion of existing businesses are priorities for the City of Fremont. The City is partnering with JobsOhio to collect data during R&E visits to better position the local and state governments when companies request assistance. A focus is placed on hiring, investment, training and site infrastructure needs.

Unemployment rates averaged below double digits in 2012. Economists are predicting a national recession recovery that will not see large employment gains. Investment in new machinery and

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

equipment will be the biggest contributing factor to the recovery. Fremont's business community will most likely follow suit.

A current City of Fremont economic development project that is occurring jointly with SCEDC, the City of Clyde's economic development group ClydeScope, and Bellevue Economic Development Corporation is the re-shoring of U.S. companies from Mexico to Sandusky County. A comprehensive strategy is being developed to identify targeted companies and market the benefits of moving back to the U.S. specifically to Sandusky County Ohio.

The City's economic development web page has added a comprehensive building and sites database that helps promote available space to prospective businesses. A new version of the City's website continues to be updated on a regular basis and provides valuable information to its citizens.

In addition to continuing involvement with the Supplier Recruitment Program, Re-shoring of U.S. Companies, conducting R&E Visits, and adding economic development information to the City's website, the economic development office will play an active role in other programs. Two important initiatives involve the BIG Fremont Program which is a long-term strategic plan for the City and regular networking with industrial site selection consultants.

The most recent significant investment in the City by a manufacturing company was when Rexam invested \$3.3 million in a new production line during the 2nd quarter of 2013. Twenty-three high paying jobs were created as a result of this project. Rexam is a leading global beverage can maker.

Workforce development is a challenge for many employers as skilled employees are becoming more difficult to find. Terra Community College, the Sandusky County Job Store, Sandusky County Economic Development Corporation and the City of Fremont will work with local businesses throughout 2012 to identify training needs. JobsOhio will be a potential source for funding assistance.

The U.S. Department of Labor is forecasting Ohio's non-farm employment will increase 1.2% in 2013 and 1.6% in 2014. The City's employment numbers should reflect these increases. Additionally, Ohio's Real GDP is forecasted to increase 2.8% in 2013 and 3.8% in 2014 with the City following close to these projections.

Employment numbers are forecasted to remain stable during 2013 with a chance for a slight increase. One new small manufacturing company is expected to be announced during the first quarter of 2013. Several other manufacturing companies have plans for personal property investment without a need for additional employees.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, 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. Paul Grahl, City Auditor, City of Fremont, 323 South Front Street, Fremont, Ohio 43420-3037.

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 10,275,984	\$ 16,231,904	\$ 26,507,888
Receivables (net of allowances for uncollectibles):			
Income taxes	2,912,881	-	2,912,881
Property and other local taxes	799,659	-	799,659
Accounts	36,148	2,039,853	2,076,001
Loans	319,073	-	319,073
Accrued interest	15,238	-	15,238
Due from other governments	840,237	-	840,237
Materials and supplies inventory	100,417	446,599	547,016
Internal balance	43	(43)	-
Restricted assets:			
Equity in pooled cash and cash equivalents	-	70,800	70,800
Capital assets:			
Land and construction in progress	1,312,139	46,736,082	48,048,221
Depreciable capital assets, net	19,895,668	38,393,021	58,288,689
Total capital assets, net	<u>21,207,807</u>	<u>85,129,103</u>	<u>106,336,910</u>
Total assets	<u>36,507,487</u>	<u>103,918,216</u>	<u>140,425,703</u>
Deferred outflows of resources:			
Unamortized deferred charges on debt refunding	89,242	-	89,242
Liabilities:			
Accounts payable	162,153	167,445	329,598
Contracts payable	138,141	9,824,334	9,962,475
Accrued wages and benefits	400,713	180,005	580,718
Due to other governments	1,878	29,136	31,014
Pension obligation payable	250,256	17,998	268,254
Due to claimants	12,004	-	12,004
Accrued interest payable	24,608	7,683	32,291
Payable from restricted assets:			
Refundable deposits	-	70,800	70,800
Long-term liabilities:			
Due within one year	462,824	634,626	1,097,450
Due in more than one year	<u>3,347,267</u>	<u>29,432,698</u>	<u>32,779,965</u>
Total liabilities	<u>4,799,844</u>	<u>40,364,725</u>	<u>45,164,569</u>
Deferred inflows of resources:			
Property taxes levied for the next year	707,578	-	707,578
Net position:			
Net investment in capital assets	19,037,516	45,686,516	64,724,032
Restricted for:			
Debt service	5,773	-	5,773
Transportation projects	1,315,729	-	1,315,729
Police and fire pension	837,607	-	837,607
Revolving loans	447,110	-	447,110
Recreation	253,781	-	253,781
Other purposes	640,986	-	640,986
Unrestricted	<u>8,550,805</u>	<u>17,866,975</u>	<u>26,417,780</u>
Total net position	<u>\$ 31,089,307</u>	<u>\$ 63,553,491</u>	<u>\$ 94,642,798</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,401,425	\$ 536,249	\$ 9,098	\$ -
Security of persons and property	6,419,803	46,831	3,250	7,116
Public health and welfare	3,845	-	-	-
Transportation	1,522,610	43,472	1,200,302	432,732
Community environment	486,881	-	261,832	-
Leisure time activity	1,961,433	420,013	33,065	-
Economic development	155,412	100	10,378	-
Interest and fiscal charges	106,939	-	-	-
Bond issuance costs	39,979	-	-	-
Total governmental activities	13,098,327	1,046,665	1,517,925	439,848
Business-type activities:				
Water	5,504,317	5,940,348	-	875,715
Sewer	3,908,787	7,384,288	-	-
Total business-type activities	9,413,104	13,324,636	-	875,715
Total primary government	\$ 22,511,431	\$ 14,371,301	\$ 1,517,925	\$ 1,315,563

General revenues:

Income taxes levied for:

 General purposes

Property taxes levied for:

 General purposes

 Police pension

 Fire pension

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues

Transfers

Change in net position

Net position at beginning of year (restated)

Net position at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$ (1,856,078)	\$ -	\$ (1,856,078)
(6,362,606)	-	(6,362,606)
(3,845)	-	(3,845)
153,896	-	153,896
(225,049)	-	(225,049)
(1,508,355)	-	(1,508,355)
(144,934)	-	(144,934)
(106,939)	-	(106,939)
(39,979)	-	(39,979)
<u>(10,093,889)</u>	<u>-</u>	<u>(10,093,889)</u>
-	1,311,746	1,311,746
-	3,475,501	3,475,501
-	4,787,247	4,787,247
<u>(10,093,889)</u>	<u>4,787,247</u>	<u>(5,306,642)</u>
7,385,935	-	7,385,935
788,253	-	788,253
80,532	-	80,532
80,532	-	80,532
820,319	-	820,319
20,389	23,744	44,133
360,984	25,673	386,657
<u>9,536,944</u>	<u>49,417</u>	<u>9,586,361</u>
<u>(79,371)</u>	<u>79,371</u>	<u>-</u>
(636,316)	4,916,035	4,279,719
<u>31,725,623</u>	<u>58,637,456</u>	<u>90,363,079</u>
<u>\$ 31,089,307</u>	<u>\$ 63,553,491</u>	<u>\$ 94,642,798</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,361,735	\$ 5,896,460	\$ 10,258,195
Receivables (net of allowance for uncollectibles):			
Income taxes	2,912,881	-	2,912,881
Property and other local taxes	649,733	149,926	799,659
Accounts	24,829	11,319	36,148
Accrued interest	15,238	-	15,238
Loans	-	319,073	319,073
Due from other funds	-	155,987	155,987
Due from other governments	463,617	376,620	840,237
Materials and supplies inventory	-	100,417	100,417
	<u>\$ 8,428,033</u>	<u>\$ 7,009,802</u>	<u>\$ 15,437,835</u>
Total assets	<u>\$ 8,428,033</u>	<u>\$ 7,009,802</u>	<u>\$ 15,437,835</u>
Liabilities:			
Accounts payable	\$ 49,039	\$ 112,549	\$ 161,588
Contracts payable	-	138,141	138,141
Accrued wages and benefits payable	345,621	52,048	397,669
Due to other funds	155,987	-	155,987
Due to other governments	1,421	457	1,878
Compensated absences payable	56,340	11,215	67,555
Pension obligation payable	244,564	5,393	249,957
Due to claimants	12,004	-	12,004
	<u>864,976</u>	<u>319,803</u>	<u>1,184,779</u>
Total liabilities	<u>864,976</u>	<u>319,803</u>	<u>1,184,779</u>
Deferred inflows of resources:			
Property taxes levied for the next year	574,908	132,670	707,578
Delinquent property tax revenue not available	134,924	17,256	152,180
Accrued interest not available	15,238	-	15,238
Income tax revenue not available	1,435,801	-	1,435,801
Nonexchange transactions	155,847	242,764	398,611
	<u>2,316,718</u>	<u>392,690</u>	<u>2,709,408</u>
Total deferred inflows of resources	<u>2,316,718</u>	<u>392,690</u>	<u>2,709,408</u>
Fund balances:			
Nonspendable	-	100,417	100,417
Restricted	-	3,213,755	3,213,755
Committed	3,960,720	1,953,603	5,914,323
Assigned	1,088,718	1,062,513	2,151,231
Unassigned (deficit)	196,901	(32,979)	163,922
	<u>5,246,339</u>	<u>6,297,309</u>	<u>11,543,648</u>
Total fund balances	<u>5,246,339</u>	<u>6,297,309</u>	<u>11,543,648</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,428,033</u>	<u>\$ 7,009,802</u>	<u>\$ 15,437,835</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

Total governmental fund balances		\$	11,543,648
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			21,207,807
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Income taxes receivable	\$	1,435,801	
Property and other local taxes receivable		92,081	
Due from other governments		458,710	
Accrued interest receivable		15,238	
Total		2,001,830	2,001,830
Internal service funds are used by management to charge the costs of internal equipment service and employee benefits to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net position.			13,881
An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.			43
In the statement of net position interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due.			(24,608)
Unamortized premiums on bond issuances are not recognized in the funds.			(64,533)
Unamortized deferred amounts on refundings are not recognized in the governmental funds.			89,242
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		(2,940,000)	
Compensated absences		(738,003)	
Total		(3,678,003)	(3,678,003)
Net position of governmental activities		\$	31,089,307

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, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Income taxes	\$ 7,645,178	\$ -	\$ 7,645,178
Property and other local taxes	791,091	161,718	952,809
Charges for services	27,308	421,113	448,421
Licenses, permits and fees	31,691	-	31,691
Fines and forfeitures	301,737	207,952	509,689
Intergovernmental	841,415	1,926,795	2,768,210
Special assessments	-	56,864	56,864
Investment income	37,602	6,379	43,981
Other	358,451	55,586	414,037
Total revenues	<u>10,034,473</u>	<u>2,836,407</u>	<u>12,870,880</u>
Expenditures:			
Current:			
General government	2,215,058	62,527	2,277,585
Security of persons and property	5,308,636	759,030	6,067,666
Public health and welfare.	3,768	-	3,768
Transportation	-	727,660	727,660
Community environment	70,227	406,370	476,597
Leisure time activity	651,527	842,652	1,494,179
Economic development and assistance	118,875	2,848	121,723
Capital outlay	5,165	792,154	797,319
Debt service:			
Principal retirement.	-	1,008,810	1,008,810
Interest and fiscal charges	-	106,466	106,466
Bond issuance costs	-	39,979	39,979
Total expenditures	<u>8,373,256</u>	<u>4,748,496</u>	<u>13,121,752</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>1,661,217</u>	<u>(1,912,089)</u>	<u>(250,872)</u>
Other financing sources (uses):			
Sale of bonds.	-	745,000	745,000
Premium on bonds	-	3,789	3,789
Transfers in	20,000	1,728,000	1,748,000
Transfers out	<u>(1,728,000)</u>	<u>(20,000)</u>	<u>(1,748,000)</u>
Total other financing sources (uses)	<u>(1,708,000)</u>	<u>2,456,789</u>	<u>748,789</u>
Net change in fund balances	(46,783)	544,700	497,917
Fund balances at beginning of year (Restated)	5,293,122	5,752,609	11,045,731
Fund balances at end of year	<u>\$ 5,246,339</u>	<u>\$ 6,297,309</u>	<u>\$ 11,543,648</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, 2012

Net change in fund balances - total governmental funds \$ 497,917

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital asset additions	\$ 489,138	
Current year depreciation	(1,562,188)	
Total	(1,073,050)	(1,073,050)

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.

(15,296)

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

Delinquent property taxes	(3,492)	
Intergovernmental	(43,171)	
Municipal income taxes	(259,243)	
Interest	(23,592)	
Total	(329,498)	(329,498)

Proceeds of bonds are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position.

(745,000)

Repayment of the long-term police and fire pension and community center obligation is an expenditure in the governmental funds; however, in the statement of activities it is not recorded as an expense as it decreases liabilities on the statement of net position.

1,008,810

Premiums on bonds are recognized as other financing sources in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.

(3,789)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in more interest being reported in the statement of activities:

Decrease in accrued interest	3,741	
Amortization of deferred amounts on refunding	(13,386)	
Amortization of bond premiums	9,172	
Total	(473)	(473)

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.

24,390

Internal service funds used by management to charge the costs of internal equipment service and employee benefits to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds, including internal balance of \$6, is allocated among the governmental activities.

(327)

Change in net position of governmental activities \$ (636,316)

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Property and other local taxes	\$ 689,579	\$ 698,193	\$ 791,091	\$ 92,898
Charges for services	21,080	21,343	24,183	2,840
Licenses, permits and fees	27,624	27,970	31,691	3,721
Fines and forfeitures	268,414	271,767	307,927	36,160
Intergovernmental	643,455	651,493	738,177	86,684
Investment income	44,940	45,501	51,555	6,054
Other	145,346	147,162	166,742	19,580
Total revenues	1,840,438	1,863,429	2,111,366	247,937
Expenditures:				
Current:				
General government	1,746,745	1,936,934	1,853,531	83,403
Security of persons and property	5,932,512	5,975,512	5,489,230	486,282
Public health and welfare	10,865	10,865	3,955	6,910
Community environment	148,381	148,381	77,791	70,590
Leisure time activity	710,463	720,463	657,690	62,773
Economic development and assistance	120,869	120,869	119,544	1,325
Total expenditures	8,669,835	8,913,024	8,201,741	711,283
Excess of expenditures over revenues	(6,829,397)	(7,049,595)	(6,090,375)	959,220
Other financing sources (uses):				
Sale of capital assets	18,831	19,066	21,603	2,537
Advances in	-	-	600,000	600,000
Advances out	-	-	(600,000)	(600,000)
Transfers in	6,145,731	6,222,505	6,450,435	227,930
Transfers out	(320,000)	(880,500)	(454,000)	426,500
Total other financing sources (uses)	5,844,562	5,361,071	6,018,038	656,967
Net change in fund balance	(984,835)	(1,688,524)	(72,337)	1,616,187
Fund balance at beginning of year	1,643,732	1,643,732	1,643,732	-
Prior year encumbrances appropriated	109,700	109,700	109,700	-
Fund balance at end of year	\$ 768,597	\$ 64,908	\$ 1,681,095	\$ 1,616,187

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 4,530,161	\$ 11,701,743	\$ 16,231,904	\$ 17,789
Receivables (net of allowance for uncollectibles):				
Accounts	877,197	1,162,656	2,039,853	-
Materials and supplies inventory	408,921	37,678	446,599	-
Noncurrent assets:				
Restricted assets:				
Equity in pooled cash and cash equivalents	70,800	-	70,800	-
Capital assets:				
Land and construction in progress	43,846,718	2,889,364	46,736,082	-
Depreciable capital assets, net	30,489,778	7,903,243	38,393,021	-
Total capital assets, net	<u>74,336,496</u>	<u>10,792,607</u>	<u>85,129,103</u>	<u>-</u>
Total assets	<u>80,223,575</u>	<u>23,694,684</u>	<u>103,918,259</u>	<u>17,789</u>
Liabilities:				
Current liabilities:				
Accounts payable	73,515	93,930	167,445	565
Contracts payable	9,736,016	88,318	9,824,334	-
Accrued wages and benefits payable	84,008	95,997	180,005	3,044
Due to other governments	27,691	1,445	29,136	-
Pension obligation payable	8,388	9,610	17,998	299
Accrued interest payable	7,683	-	7,683	-
Current portion of compensated absences	7,469	32,932	40,401	-
Current portion of general obligation bonds payable	575,000	-	575,000	-
Current portion of OPWC loans payable	-	19,225	19,225	-
Payable from restricted assets:				
Refundable deposits	70,800	-	70,800	-
Total current liabilities	<u>10,590,570</u>	<u>341,457</u>	<u>10,932,027</u>	<u>3,908</u>
Long-term liabilities:				
Compensated absences payable	131,910	186,108	318,018	-
General obligation bonds payable	6,729,715	-	6,729,715	-
OWDA loans payable	20,561,070	1,638,977	22,200,047	-
OPWC loans payable	-	184,918	184,918	-
Total long-term liabilities	<u>27,422,695</u>	<u>2,010,003</u>	<u>29,432,698</u>	<u>-</u>
Total liabilities	<u>38,013,265</u>	<u>2,351,460</u>	<u>40,364,725</u>	<u>3,908</u>
Net position:				
Net investment in capital assets	36,737,029	8,949,487	45,686,516	-
Unrestricted	<u>5,473,281</u>	<u>12,393,737</u>	<u>17,867,018</u>	<u>13,881</u>
Total net position	<u>\$ 42,210,310</u>	<u>\$ 21,343,224</u>	63,553,534	<u>\$ 13,881</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds			(43)	
Net position of business-type activities			<u>\$ 63,553,491</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Operating revenues:				
Charges for services	\$ 5,934,650	\$ 7,384,288	\$ 13,318,938	\$ 72,223
Tap-in fees	5,698	-	5,698	-
Other	15,218	7,478	22,696	-
Total operating revenues	<u>5,955,566</u>	<u>7,391,766</u>	<u>13,347,332</u>	<u>72,223</u>
Operating expenses:				
Personal services	1,677,671	2,015,934	3,693,605	60,112
Contract services	5,387	412,916	418,303	3,310
Materials and supplies	753,577	197,949	951,526	2,034
Utilities expense	319,691	434,066	753,757	5,976
Depreciation	1,368,369	469,753	1,838,122	-
Other	73,351	76,321	149,672	1,124
Total operating expenses	<u>4,198,046</u>	<u>3,606,939</u>	<u>7,804,985</u>	<u>72,556</u>
Operating income (loss)	<u>1,757,520</u>	<u>3,784,827</u>	<u>5,542,347</u>	<u>(333)</u>
Nonoperating revenues (expenses):				
Interest revenue	775	22,969	23,744	-
Interest and fiscal charges	(1,185,849)	-	(1,185,849)	-
Gain (loss) on sale of capital assets	428	(301,847)	(301,419)	-
Other nonoperating revenues	2,549	-	2,549	-
Bond issuance costs	(120,417)	-	(120,417)	-
Total nonoperating revenues (expenses)	<u>(1,302,514)</u>	<u>(278,878)</u>	<u>(1,581,392)</u>	<u>-</u>
Income (loss) before contributions and transfers	455,006	3,505,949	3,960,955	(333)
Capital contributions	<u>952,201</u>	<u>2,885</u>	<u>955,086</u>	<u>-</u>
Change in net position	1,407,207	3,508,834	4,916,041	(333)
Net position (restated) at beginning of year	<u>40,803,103</u>	<u>17,834,390</u>		<u>14,214</u>
Net position at end of year	<u>\$ 42,210,310</u>	<u>\$ 21,343,224</u>		<u>\$ 13,881</u>
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			(6)	
Change in net position of business-type activities.			<u>\$ 4,916,035</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, 2012

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	Activities - Internal Service Funds
Cash flows from operating activities:				
Cash received from charges for services	\$ 5,902,627	\$ 7,216,022	\$ 13,118,649	\$ 72,223
Cash received from tap-in fees	5,698	-	5,698	-
Cash received from other operations	43,843	7,478	51,321	-
Cash payments for personal services	(1,689,710)	(1,989,412)	(3,679,122)	(59,163)
Cash payments for contractual services	(402,050)	(351,299)	(753,349)	(3,802)
Cash payments for materials and supplies.	(933,948)	(200,529)	(1,134,477)	(2,034)
Cash payments for utilities expense.	(325,101)	(399,648)	(724,749)	(5,976)
Cash payments for other expenses	(101,367)	(74,475)	(175,842)	(1,124)
	<u>2,499,992</u>	<u>4,208,137</u>	<u>6,708,129</u>	<u>124</u>
Net cash provided by operating activities				
Cash flows from capital and related financing activities:				
Cash payments for the acquisition of capital assets.	(6,834,263)	(1,786,494)	(8,620,757)	-
Cash received from the sale of capital assets	428	268	696	-
Cash received from capital contributions.	638,604	-	638,604	-
Cash payments for principal retirement.	(8,107,472)	(19,224)	(8,126,696)	-
Cash payments for interest and fiscal charges	(1,200,611)	-	(1,200,611)	-
Cash received from proceeds of bonds	6,900,000	-	6,900,000	-
Cash received from premiums on bonds	413,206	-	413,206	-
Cash payments for bond issuance costs.	(120,417)	-	(120,417)	-
Cash received from OWDA loan issuance.	6,655,941	1,471,586	8,127,527	-
	<u>(1,654,584)</u>	<u>(333,864)</u>	<u>(1,988,448)</u>	<u>-</u>
Net cash used in capital and related financing activities.				
Cash flows from investing activities:				
Cash received from interest earned.	775	22,969	23,744	-
	<u>775</u>	<u>22,969</u>	<u>23,744</u>	<u>-</u>
Net cash provided by investing activities				
Net increase in cash and cash equivalents.	846,183	3,897,242	4,743,425	124
Cash and cash equivalents at beginning of year	3,754,778	7,804,501	11,559,279	17,665
Cash and cash equivalents at end of year	<u>\$ 4,600,961</u>	<u>\$ 11,701,743</u>	<u>\$ 16,302,704</u>	<u>\$ 17,789</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 1,757,520	\$ 3,784,827	\$ 5,542,347	\$ (333)
Adjustments:				
Depreciation	1,368,369	469,753	1,838,122	-
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(180,015)	(6,536)	(186,551)	-
Increase in accounts receivable	(32,023)	(168,266)	(200,289)	-
Increase (decrease) in accounts payable	(329,793)	28,698	(301,095)	73
Increase (decrease) in contracts payable	(107,718)	71,782	(35,936)	-
Increase in accrued wages and benefits	7,428	8,834	16,262	344
Increase (decrease) in compensated absences payable	(20,226)	16,584	(3,642)	-
Increase in intergovernmental payable	27,691	1,445	29,136	-
Increase in refundable deposits liability	8,085	-	8,085	-
Increase in pension obligation payable	674	1,016	1,690	40
Net cash provided by operating activities	<u>\$ 2,499,992</u>	<u>\$ 4,208,137</u>	<u>\$ 6,708,129</u>	<u>\$ 124</u>

During 2012, the water fund received \$76,486 in capital contributions from other funds.
 During 2012, the water fund received \$237,111 in OWDA loan proceeds and loan forgiveness payments
 During 2012, the sewer fund received \$2,885 in capital contributions from other funds.
 During 2011 capitalized interest was under recorded by \$2,549. OWDA loan proceeds were increased during 2012 by \$2,549.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2012

		Agency
Assets:		
Equity in pooled cash		
and cash equivalents	\$	31,590
Cash in segregated accounts.		5,264
Receivables:		
Accounts		2,508
Total assets	\$	39,362
Liabilities:		
Due to other governments	\$	35,690
Deposits held and due to others		3,672
Total liabilities	\$	39,362

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 most significant of the City's accounting policies are described below.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. The City's reporting entity has been defined according to GASB Statement No. 14, "The Financial Reporting Entity", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units".

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence 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 that are fiscally dependent on the City in that the City approves the organization's budget, the issuance of its debt or the levying of its taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the City and the organization is such that exclusion by the City would render the City's financial statements incomplete or misleading. 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 position 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 position 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, 2012
(Continued)**

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

The statement of net position 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 deferred outflows and liabilities and deferred inflows is reported as fund balance.

The following is the City's major governmental fund:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the City are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

PROPRIETARY FUNDS

Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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 residential and commercial users located within the City.

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. 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, all deferred outflows, all liabilities and all deferred inflows associated with the operation of the City are included on the statement of net position.

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, current deferred outflows, current liabilities and current deferred inflows generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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, all deferred outflows, all liabilities and all deferred inflows associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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 inflows and in the presentation of expenses versus expenditures.

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

before it can be recognized.

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

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows. Income taxes, payment in lieu of taxes and grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012, are recorded as deferred inflows on the governmental fund financial statements.

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 fund-department and within each department, the amount spent on personal services for all funds.

Estimated Resources - The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. On or about 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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

estimates and the County Budget Commission finds the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the first and final amended official certificate of estimated resources issued during 2012.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and within each department, the amount for personal services. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. The amounts set forth in the financial statements represent the original and final appropriations approved by City Council during 2012.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are reappropriated in the succeeding year.

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

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 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Farm Credit Bank (FFCB) 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 shares price, which is the price the investment could be sold for on December 31, 2012.

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SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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 2012 was \$37,602, which includes \$29,818 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. On the fund financial statements, reported loans receivable is offset by a nonspendable fund balance for amounts due in more than one year.

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 nonspendable fund balance 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 position, 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 position 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 capitalized. Interest incurred during the construction of proprietary capital assets is also capitalized. There was no interest capitalized during 2012.

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	10-50 years	10-50 years
Buildings	25-50 years	25-50 years
Building improvements	5-50 years	5-25 years
Machinery and equipment	3-30 years	5-10 years
Infrastructure - streets, sidewalks, and storm sewers	25-50 years	50 years
Infrastructure - bridges and culverts	25-50 years	25-50 years

K. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments as well as the sick leave accumulated by those employees expected to become eligible to receive termination benefits in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's union contracts or administrative ordinance. The City records a liability for accumulated unused sick leave for all employees with 10 or more years of service with the City up to a maximum of 500 hours for all employees except police sergeants, captains, and firefighters, which have a maximum of 600 hours.

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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 and compensated absences 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

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.

In addition to interfund transfers, the City has an interfund loan between the Walsh Trust special revenue fund and the General Fund. The remaining balance of \$155,987 is expected to be repaid in 2013.

N. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the City Auditor the authority to constrain monies for intended purposes.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

O. Restricted Assets

Customer deposits are held in the water fund to assure payment of utility bills.

Restricted assets at December 31, 2012 are comprised of the following:

	<u>Cash and Cash Equivalents</u>
Customer deposits	<u>\$ 70,800</u>

The restricted assets are equally offset by a restricted payable so there is no effect on net position of the water fund.

P. Bond Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On the government-wide financial statements and proprietary fund financial statements, issuance costs are expensed during the year in which they are incurred.

Bond premiums and discounts are deferred and amortized over the term of the bonds using the straight- line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts are presented as a reduction to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt reported on the government-wide financial statements and in the proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources on the statement of net position on the government-wide financial statements and in the proprietary funds.

On the governmental-wide financial statements and proprietary fund financial statements bond premiums are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 11.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

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

Q. Estimates

The preparation of the Basic Financial Statements (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, grants or outside contributions of resources restricted to capital acquisition and construction, or capital assets that are purchased by a fund and then transferred to another fund. Capital contributions are reported as nonoperating revenue in the proprietary fund financial statements. During 2012, the water and sewer enterprise funds received \$952,201 and \$2,885, respectively, in capital contributions.

S. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position invested in capital assets 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 position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. None of the City's net position are restricted by enabling legislation.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For 2012, the City has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the City.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the City.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the City's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had the following effect on the financial statements of the City:

	Governmental Activities	Business-type Activities	Enterprise Fund Water
Net assets as previously reported	\$ 31,825,111	\$ 58,942,028	\$ 41,107,675
Removal of unamortized bond issuance costs	(99,488)	(304,572)	(304,572)
Net position at January 1, 2012	\$ 31,725,623	\$ 58,637,456	\$ 40,803,103

B. Accounting Change

An accounting change is required to correct the fund classification of the Walsh Trust Fund. During the audit period, the City was able to locate the trust agreement, which changed the classification of this fund. This accounting change had the following effect on the City's governmental fund balances as previously reported:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	General	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 6,044,891	\$ 5,000,840	\$ 11,045,731
Accounting change:			
Fund reclassification - Walsh Trust Fund	(751,769)	751,769	
Restated fund balance at January 1, 2012	\$ 5,293,122	\$ 5,752,609	\$ 11,045,731

C. Deficit Fund Balances

Fund balances at December 31, 2012, included the following individual fund deficits:

<u>Nonmajor governmental fund</u>	<u>Deficit</u>
Community housing	\$ 32,979

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities and the reporting of short-term interfund loans as a liability rather than as an other financing source.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits in interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim monies may be deposited or invested in the following:

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

Restricted equity in pooled cash: At year-end, the City had \$70,800 in restricted assets for refundable deposits from customers of the water fund. This amount is included in the "deposits with financial institutions" below.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash in Segregated Accounts

At year end, \$5,264 was on deposit in segregated accounts for the Municipal Court and small business checking account. These accounts are included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the balance sheet as “equity in pooled cash and cash equivalents”.

B. Deposits with Financial Institutions

As of December 31, 2012, the carrying amount of all City deposits was \$17,217,316. At December 31, 2012, \$4,668,252 of the City’s bank balance of \$17,631,496 was covered by the Federal Deposit Insurance Corporation and \$12,963,244 was exposed to custodial credit risk as discussed below.

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

C. Investments

As of December 31, 2012, the City had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	More than 24 months
STAR Ohio	\$ 410,077	\$ 410,077	\$ -	\$ -	\$ -	\$ -
FHLMC	3,012,240	-	3,012,240	-	-	-
FFCB	5,975,909	-	1,479,000	2,498,750	999,250	998,909
Total	\$ 9,398,226	\$ 410,077	\$ 4,491,240	\$ 2,498,750	\$ 999,250	\$ 998,909

The weighted average maturity of investments is 1.32 years.

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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

Concentration of Credit Risk: The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 410,077	4.36
FHLMC	3,012,240	32.05
FFCB	<u>5,975,909</u>	<u>63.59</u>
Total	<u>\$ 9,398,226</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net position as of December 31, 2012:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 17,212,052
Investments	9,398,226
Cash in segregated accounts	<u>5,264</u>
Total	<u>\$ 26,615,542</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 10,275,984
Business type activities	16,302,704
Agency funds	<u>36,854</u>
Total	<u>\$ 26,615,542</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2012 consisted of the following, as reported in the fund financial statements:

<u>Transfers from general fund to:</u>	
Nonmajor governmental funds	\$ 1,728,000
 <u>Transfers from nonmajor governmental fund to:</u>	
General fund	<u>20,000</u>
Total	<u>\$ 1,748,000</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 5 - INTERFUND TRANSFERS – (Continued)

The \$20,000 transfer from the revolving loan fund (a nonmajor governmental fund) to the general fund was a mandated transfer per an Ohio CDBG grant.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Fremont. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by deferred inflows since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred inflow.

The full tax rate for all City operations for the year ended December 31, 2012 was \$3.20 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2012 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 152,516,130
Commercial/industrial/mineral	98,082,500
 <u>Public utility</u>	
Real	81,150
Personal	11,121,770
	11,121,770
Total assessed value	\$ 261,801,550

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 7 - LOCAL INCOME TAX

The City levies and collects an income tax of 1.5 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax revenue is credited to the general fund and amounted to \$7,645,178 in 2012.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2012 consisted of taxes, accounts (billings for user charged services), loans, accrued interest, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "due from other governments" on the basic financial statements. Receivables have been recorded to the extent that they are measurable and available at December 31, 2012.

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

<u>Receivables:</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Income taxes	\$ 2,912,881	\$ -
Property and other local taxes	799,659	-
Accounts	36,148	2,039,853
Loans	319,073	-
Accrued interest	15,238	-
Due from other governments	<u>840,237</u>	<u>-</u>
Total	<u>\$ 4,923,236</u>	<u>\$ 2,039,853</u>

Receivables have been disaggregated on the face of the basic financial statements. The only receivables not expected to be collected within the subsequent year is the loans receivable, which is collected over the life of the loans (See Note 9).

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 2012, there were loans to four businesses with a total principal balance of \$319,073. \$225,171 is the amount due within one year and \$93,901 is due in more than one year.

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Governmental activities:</u>	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 809,559	\$ -	\$ -	\$ 809,559
Construction-in-progress	<u>193,502</u>	<u>418,186</u>	<u>(109,108)</u>	<u>502,580</u>
<i>Total capital assets, not being depreciated</i>	<u>1,003,061</u>	<u>418,186</u>	<u>(109,108)</u>	<u>1,312,139</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	4,600,204	10,022	(15,989)	4,594,237
Buildings and improvements	12,570,990	-	-	12,570,990
Machinery and equipment	5,626,258	60,930	(211,909)	5,475,279
Infrastructure	<u>17,155,881</u>	<u>109,108</u>	<u>-</u>	<u>17,264,989</u>
<i>Total capital assets, being depreciated</i>	<u>39,953,333</u>	<u>180,060</u>	<u>(227,898)</u>	<u>39,905,495</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,613,781)	(203,221)	12,897	(1,804,105)
Buildings and improvements	(4,838,701)	(365,278)	-	(5,203,979)
Machinery and equipment	(3,498,801)	(334,327)	199,705	(3,633,423)
Infrastructure	<u>(8,708,958)</u>	<u>(659,362)</u>	<u>-</u>	<u>(9,368,320)</u>
<i>Total accumulated depreciation</i>	<u>(18,660,241)</u>	<u>(1,562,188)</u>	<u>212,602</u>	<u>(20,009,827)</u>
Total capital assets, being depreciated, net	<u>21,293,092</u>	<u>(1,382,128)</u>	<u>(15,296)</u>	<u>19,895,668</u>
Total capital assets, net	<u>\$ 22,296,153</u>	<u>\$ (963,942)</u>	<u>\$ (124,404)</u>	<u>\$ 21,207,807</u>

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

Governmental activities:

General government	\$ 65,152
Security of persons and property	236,892
Transportation	785,512
Leisure time activities	453,205
Economic development	<u>21,427</u>
Total depreciation expense	<u>\$ 1,562,188</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 10 - CAPITAL ASSETS - (Continued)

	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/12</u>
<u>Business-type activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 903,988	\$ -	\$ -	\$ 903,988
Construction-in-progress	<u>27,581,323</u>	<u>18,250,771</u>	<u>-</u>	<u>45,832,094</u>
<i>Total capital assets, not being depreciated</i>	<u>28,485,311</u>	<u>18,250,771</u>	<u>-</u>	<u>46,736,082</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,603,765	2,525	-	1,606,290
Buildings and improvements	36,038,165	-	(417,070)	35,621,095
Machinery and equipment	8,065,598	141,237	(315,593)	7,891,242
Infrastructure	<u>23,335,035</u>	<u>39,277</u>	<u>-</u>	<u>23,374,312</u>
<i>Total capital assets, being depreciated</i>	<u>69,042,563</u>	<u>183,039</u>	<u>(732,663)</u>	<u>68,492,939</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(364,143)	(46,390)	-	(410,533)
Buildings and improvements	(15,251,135)	(971,678)	213,651	(16,009,162)
Machinery and equipment	(5,728,320)	(352,886)	216,897	(5,864,309)
Infrastructure	<u>(7,348,746)</u>	<u>(467,168)</u>	<u>-</u>	<u>(7,815,914)</u>
<i>Total accumulated depreciation</i>	<u>(28,692,344)</u>	<u>(1,838,122)</u>	<u>430,548</u>	<u>(30,099,918)</u>
Total capital assets, being depreciated, net	<u>40,350,219</u>	<u>(1,655,083)</u>	<u>(302,115)</u>	<u>38,393,021</u>
Total capital assets, net	<u>\$ 68,835,530</u>	<u>\$ 16,595,688</u>	<u>\$ (302,115)</u>	<u>\$ 85,129,103</u>

Construction in progress represents costs in and out of the water and sewer funds relating to the Reservoir, OEPA Long Term Plan, and North Street Siphon, as of December 31, 2012.

Depreciation expense was charged to the enterprise funds of the City as follows:

	<u>Depreciation</u> <u>Expense</u>
<u>Business-type activities:</u>	
Water fund	\$ 1,368,369
Sewer fund	<u>469,753</u>
Total depreciation expense	<u>\$ 1,838,122</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. Governmental activities

The City's governmental activities long-term obligations at December 31, 2012, were as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

	Balance			Balance	Amount Due
Governmental activities:	12/31/11	Increases	Decreases	12/31/12	Within One Year
<u>General obligation bonds:</u>					
Community center	\$ 2,480,000	\$ -	\$ (285,000)	\$ 2,195,000	\$ 290,000
Police and fire pension	-	745,000	-	745,000	45,000
Total general obligation bonds	2,480,000	745,000	(285,000)	2,940,000	335,000
<u>Pension liability:</u>					
Police and fire pension	723,810	-	(723,810)	-	-
<u>Other long-term obligations:</u>					
Compensated absences	817,460	91,471	(103,373)	805,558	127,824
Total	4,021,270	836,471	(1,112,183)	3,745,558	462,824
Unamortized premium on bonds	69,916	3,789	(9,172)	64,533	-
Total long-term obligations	\$ 4,091,186	\$ 840,260	\$ (1,121,355)	\$ 3,810,091	\$ 462,824

General obligation bonds:

Community center bonds:

The community center general obligation bonds were originally issued in 1999, carried an interest rate of 3.25% - 4.85%, and were issued for the construction of a community center. These general obligation bonds were advance refunded in 2009 with the proceeds of a \$3,040,000 refunding bond issue. The refunding bonds carry an interest rate of 2.50% - 4.00%. The bonds are a general obligation of the City, and the principal and interest payments are paid out of the debt service fund. The proceeds of the 2009 general obligation bonds were used for the advance refunding of the 1999 general obligation bonds by purchasing 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, 2012 is \$2,170,000; however, this amount is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

Police and fire pension bonds:

On October 31, 2012, the City issued \$745,000 in general obligation bonds. The proceeds of these bonds were used to retire the police and fire past service liability discussed below. The bonds bear interest rates ranging from 1.7% to 2.7%. These bonds are a general obligation of the City, and principal and interest payments will be made from the police and fire debt service fund. These bonds mature on December 1, 2024.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Police and fire past service liability:

The City's accrued past service liability to the Ohio Police and Fire Pension Fund (OP&F) was determined and became a legal obligation to the State at the date the City became a participant in OP&F. The principal and interest payments are recorded in the security of persons and property expenditures in the general fund on the governmental fund statements. This liability was completely retired in 2012.

Compensated absences:

Compensated absences will be paid from the fund from which the employees' salaries are paid, which for the City is primarily the general fund and the street maintenance fund (a nonmajor governmental fund).

B. Business-type activities

The City's business-type activities long-term obligations at December 31, 2012, were as follows:

<u>Business-type activities:</u>	<u>Balance</u> <u>12/31/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/12</u>	<u>Amount Due</u> <u>Within</u> <u>One Year</u>
<u>General obligation bonds</u>					
Water #531 - series 2003	\$ 4,060,000	\$ -	\$ (4,060,000)	\$ -	\$ -
Water #532 - series 2003	1,675,000	-	(1,675,000)	-	-
Water #533 - series 2003	1,755,000	-	(1,755,000)	-	-
Water refunding series 2012	-	6,900,000	-	6,900,000	575,000
Total	7,490,000	6,900,000	(7,490,000)	6,900,000	575,000
<u>OPWC loans</u>					
Sewer - series 2001	103,325	-	(10,332)	92,993	10,333
Sewer - series 2004	120,042	-	(8,892)	111,150	8,892
Total	223,367	-	(19,224)	204,143	19,225
<u>OWDA loans</u>					
WWTP high rate clarification design project	167,391	1,471,586	-	1,638,977	-
Water reservoir phase 1	4,484,669	1,451,738	(303,407)	5,633,000	-
Water reservoir phase 2	1,659,731	48,248	(107,294)	1,600,685	-
Off stream raw water - supply phase 2A	656,314	271,156	(65,312)	862,158	-
Water reservoir phase 1 - supplement	7,961,547	4,882,250	(378,570)	12,465,227	-
Total	14,929,652	8,124,978	(854,583)	22,200,047	-
<u>Other long-term obligations</u>					
Compensated absences	362,061	93,737	(97,379)	358,419	40,401
Total long-term obligations	\$ 23,005,080	\$ 15,118,715	\$ (8,461,186)	29,662,609	\$ 634,626
			Add: Unamortized bond premium	404,715	
				\$ 30,067,324	

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

General obligation bonds: water - (#531 and #532 - series 2003)

The general obligation bonds were originally issued in 1994 for \$6,130,000, were reissued in 2003 for \$5,710,000, and carry an interest rate of 2.00% - 5.00%. These bonds were currently refunded during 2012. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid out of the water fund. The general obligation bonds were issued for improvements to the water plant and facilities. A portion of the proceeds of the bonds were used for the advance refunding of the 1994 general obligation bonds. These proceeds were used to purchase state and local government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The balance of the refunded bonds at December 31, 2012 is \$3,680,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

General obligation bonds: water - (#533 - series 2003)

The general obligation bonds were issued in 2003 for \$2,530,000 and carry an interest rate of 2.00 - 5.00 percent. The general obligation bonds are a general obligation of the City and the principal and interest payments are paid from the water fund. The general obligation bonds were issued for improvements to the water plant and facilities. These bonds were currently refunded during 2012.

The general obligation bonds were originally issued in 1993 for \$2,745,000, were reissued in 2003 for \$2,350,000, and carry an interest rate of 2.00% - 5.00%. 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, 2012 is \$1,650,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

General obligation refunding bonds: water - series 2012

On October 3, 2012, the City issued \$6,900,000 in general obligation current refunding bonds to refund outstanding general obligation bonds. The balance of the refunding bonds at December 31, 2012 is \$6,900,000. The refunding bonds bear an annual interest rate ranging from 2.00% - 5.00% and will mature in 2024. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the water fund. The refunding was undertaken to obtain debt service savings of \$1,386,276. The present value of the debt service savings is \$1,227,387.

Ohio Public Works Commission (OPWC) loans

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

Ohio Water Development Authority (OWDA) loans

In 2010, the City entered into loans with the Ohio Water Development Authority for the construction of the Water Reservoir Phase 1, Water Reservoir Phase 2 and Waste Water Treatment Plant High Rate Clarification Design. The OWDA loans carry an interest rate of

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

3.15% - 4.04% and mature on January 1, 2032. Repayment of these loans will be funded through user charges.

As of December 31, 2012, loan amounts have not been finalized; therefore, a schedule of future payments has not been included.

The City has pledged future water and sewer revenues to repay OWDA loans. The loans are payable solely from water and sewer fund revenues and are payable through a future date which has yet to be finalized. Annual principal and interest payments on the loans are expected to required 15.93 percent of net revenues and 8.84 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$22,200,047. Principal and interest paid for the current year were \$1,179,752, total net revenues were \$7,404,213 and total revenues were \$13,347,332.

- C. Principal and interest requirements to retire the general obligation bonds, the OPWC loans, and the police and fire pension liability as of December 31, 2012 are as follows:

Year Ending December 31,	General Obligation Bonds - Community Center			Pension Liability - Police and Fire Pension		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 290,000	\$ 68,775	\$ 358,775	\$ 45,000	\$ 17,177	\$ 62,177
2014	295,000	61,525	356,525	60,000	14,960	74,960
2015	305,000	54,150	359,150	60,000	13,820	73,820
2016	315,000	45,000	360,000	60,000	12,680	72,680
2017	320,000	35,550	355,550	60,000	11,540	71,540
2018 - 2022	670,000	38,750	708,750	320,000	41,240	361,240
2023 - 2024	-	-	-	140,000	5,670	145,670
Total	<u>\$ 2,195,000</u>	<u>\$ 303,750</u>	<u>\$ 2,498,750</u>	<u>\$ 745,000</u>	<u>\$ 117,087</u>	<u>\$ 862,087</u>

Year Ending December 31,	General Obligation Bonds - Water Series 2012		
	Principal	Interest	Total
2013	\$ 575,000	\$ 214,450	\$ 789,450
2014	600,000	185,700	785,700
2015	595,000	155,700	750,700
2016	555,000	131,900	686,900
2017	300,000	109,700	409,700
2018 - 2022	3,140,000	315,800	3,455,800
2023 - 2024	1,135,000	32,200	1,167,200
Total	<u>\$ 6,900,000</u>	<u>\$ 1,145,450</u>	<u>\$ 8,045,450</u>

**CITY OF FREMONT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Year Ending December 31,	OPWC Loans - Sewer - Series 2001			OPWC Loans - Sewer - Series 2004		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 10,333	\$ -	\$ 10,333	\$ 8,892	\$ -	\$ 8,892
2014	10,332	-	10,332	8,892	-	8,892
2015	10,333	-	10,333	8,892	-	8,892
2016	10,332	-	10,332	8,892	-	8,892
2017	10,333	-	10,333	8,892	-	8,892
2018 - 2022	41,330	-	41,330	44,460	-	44,460
2023 - 2027	-	-	-	22,230	-	22,230
Total	\$ 92,993	\$ -	\$ 92,993	\$ 111,150	\$ -	\$ 111,150

D. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. 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, 2012, the City's total debt margin was \$24,434,388 and the unvoted debt margin was \$11,904,457.

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 captains, sergeants, patrol officers, dispatchers and record clerks may carry over five days for use during the first six months of the following year. Sick leave accrual is continuous. Overtime worked is always paid, or accrued, to employees on the paycheck for the period in which it was worked.

Upon retirement, police captains and sergeants are paid for 33.33 percent and firefighters are paid for 33.50 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, 2012, the governmental activities liability for compensated absences was \$805,558, the business-type activities liability for compensated absences was \$358,419, and the City's total liability for compensated absences was \$1,163,977.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 13 - RISK MANAGEMENT

Property and Casualty Insurance

The City is exposed to various risks of property and casualty losses, and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets	\$34,389,569	\$33,362,404
Liabilities	<u>(14,208,353)</u>	<u>(14,187,273)</u>
Net Position	<u>\$20,181,216</u>	<u>\$19,175,131</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the City's share of these unpaid claims collectible in future years is approximately \$152,000.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 13 - RISK MANAGEMENT - (Continued)

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
<u>2012</u>	<u>2011</u>
\$176,396	\$164,459

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

NOTE 14 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the 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 which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.00% for members. The City's contribution rate for 2012 was 14.00% of covered payroll.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 14 - PENSION PLANS - (Continued)

The City's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2012 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$511,480, \$502,887, and \$468,990, respectively; 100% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. Contributions to the member-directed plan for 2012 were \$3,115 made by the City and \$2,225 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2012, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$248,290 and \$246,301 for the year ended December 31, 2012, \$245,226 and \$239,539 for the year ended December 31, 2011, and \$247,179 and \$254,503, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 70.46% has been contributed for police and 73.17% has been contributed for firefighters for 2012. The remaining 2012 pension liability has been reported as pension obligation payable on the basic financial statements.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, local government employers contributed 14.00% of covered payroll.

Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2012 was 6.05%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$207,077, \$203,258, and \$266,696, respectively; 100% has been contributed for 2012 and 100% has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-employment 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.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at www.op-f.org.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts, one account is for health care benefits under an Internal Revenue Code Section 115 trust and the other account is for Medicare Part B reimbursements administered as an Internal Revenue Code Section 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$131,447 and \$96,379 for the year ended December 31, 2012, \$129,825 and \$93,733 for the year ended December 31, 2011, and \$130,859 and \$99,588, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 70.46% has been contributed for police and 73.17% has been contributed for firefighters for 2012. The remaining 2012 post-employment health care benefits liability has been reported as pension obligation payable on the basic financial statements.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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 for all governmental funds for which a budgetary basis statement is presented:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (72,337)
Net adjustment for revenue accruals	110,822
Net adjustment for expenditure accruals	199,937
Net adjustment for other sources/uses	(252,038)
Funds budgeted elsewhere	(197,540)
Adjustment for encumbrances	164,373
GAAP basis	\$ (46,783)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the reserve balance for the workers compensation fund, the unclaimed monies fund, the recreation trust fund and the municipal income tax fund.

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 17 – CONTINGENCIES – (Continued)

the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2012.

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.

C. Subsequent Settlements

During 2013, the City resolved several of its lawsuits related to its reservoir project.

The City resolved its case against Arcadis, U.S. Inc. As part of a global settlement with HM Miller and Trucco, Construction, the City received \$1,500,000 from Arcadis on April 10, 2013.

The City, through mediation, agreed to pay Trucco Construction \$2,700,000, which was done on February 25, 2013.

The City, through mediation, agreed to pay H.M. Miller Construction Co. \$7,033,681. \$257,655 was paid on January 31, 2013 and \$6,777,026 on May 15, 2013.

The payments to Trucco Construction and H.M. Miller Construction Co. have been accrued in the financial statements as contracts payable.

NOTE 18 - OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 173,281
Other governmental	<u>1,103,653</u>
 Total	 <u>\$ 1,276,934</u>

NOTE 19 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 19 - FUND BALANCE – (Continued)

Fund balance	General	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Materials and supplies inventory	\$ -	\$ 100,417	\$ 100,417
Total nonspendable	<u>-</u>	<u>100,417</u>	<u>100,417</u>
Restricted:			
Debt service	-	5,773	5,773
Transportation projects	-	1,040,123	1,040,123
Police and fire pension	-	812,785	812,785
Revolving loans	-	447,110	447,110
Recreation	-	266,978	266,978
Other purposes	<u>-</u>	<u>640,986</u>	<u>640,986</u>
Total restricted	<u>-</u>	<u>3,213,755</u>	<u>3,213,755</u>
Committed:			
Capital projects	-	1,953,603	1,953,603
Municipal income tax	<u>3,960,720</u>	<u>-</u>	<u>3,960,720</u>
Total committed	<u>3,960,720</u>	<u>1,953,603</u>	<u>5,914,323</u>
Assigned:			
General government	78,853	-	78,853
Securities of persons and property	40,386	-	40,386
Public health and welfare	187	-	187
Community environment	726	-	726
Leisure time activities	6,616	-	6,616
Economic environment	1,327	-	1,327
R.L. Walsh trust	-	751,754	751,754
Recreation trust	27,549	-	27,549
Subsequent year appropriations	933,074	-	933,074
Debt service	<u>-</u>	<u>310,759</u>	<u>310,759</u>
Total assigned	<u>1,088,718</u>	<u>1,062,513</u>	<u>2,151,231</u>
Unassigned (deficit)	<u>196,901</u>	<u>(32,979)</u>	<u>163,922</u>
Total fund balances	<u>\$ 5,246,339</u>	<u>\$ 6,297,309</u>	<u>\$ 11,543,648</u>

NOTE 20 – SUBSEQUENT EVENTS

On May 2, 2013, the City entered into a loan for construction, maintenance, and operation of a State water project or wastewater project on behalf of the City of Fremont for construction of phase 1 of a wastewater treatment facility up to the principal sum of \$4,831,433. The interest rate is 3.44 percent. On October 31, 2013, the loan was increased by \$1,880,672 to fund phase 2 of the project. The loan is not yet finalized so there is no repayment schedule in place as of our opinion date.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

NOTE 21 – REISSUANCE

Pursuant to GASB 62, the previously issued audit report required reissuance due to construction in progress and contracts payable adjustments related to the reservoir project settlements noted in Note 17C. The contingencies have been accrued in the financial statements as contracts payable. The adjustments do not have any effect on beginning net positions or changes in net positions.

**CITY OF FREMONT
SANDUSKY COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF COMMERCE			
<i>Direct Assistance</i>			
ARRA - Economic Adjustment Assistance	N/A	11.307	\$70,165
U.S. ARMY CORPS OF ENGINEERS			
<i>Direct Assistance</i>			
U.S. Army Corps of Engineers: Section 594 Environmental/Infrastructure Program	N/A	12.XXX	343,500
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through the Ohio Department of Development</i>			
<i>Community Development Block Grants State's Program</i>			
Community Development Block Grants State's Program	A-F-10-2BP-1	14.228	6,029
Community Development Block Grants State's Program	A-F-11-2BP-1	14.228	77,785
Community Housing Improvement Program	A-C-11-2BP-1	14.228	105,823
CDBG Revolving Loan Fund		14.228	63,036
Total Community Development Block Grants			<u>252,673</u>
Home Investment Partnerships Program	A-C-09-123-2	14.239	1,025
Home Investment Partnerships Program	A-C-11-2BP-2	14.239	67,775
Total Home Investment Partnerships Program			<u>68,800</u>
Total U.S. Department of Housing and Urban Development			<u>321,473</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Direct Assistance</i>			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	N/A	16.804	4,925
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	87547	20.205	318,190
U.S. ENVIRONMENTAL PROTECTION AGENCY			
<i>Direct Assistance</i>			
Congressionally Mandated Projects	XP-00E01399-0	66.202	145,805
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Direct Assistance</i>			
Assistance to Firefighters Grant	EMW-2011-FO-03765	97.044	7,115
Total Federal Awards Expenditures			<u><u>\$1,211,173</u></u>

Note: The accompanying notes are an integral part of this schedule.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

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

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City, passed through the Ohio Department of Development. The initial loan of this money and administrative fees are recorded as a disbursement on the Schedule. Loans repaid, including interest, are used to make additional loans. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans; and therefore, are reported as federal expenditures in the year of disbursement. Prior year outstanding loan balances are reported in the schedule below.

These loans are collateralized by mortgages on the property, business assets to include equipment, inventory and receivables, and personal assets. At December 31, 2012, the gross amounts of loans outstanding under this program were \$319,073.

Activity in the CDBG revolving loan fund during 2012 is as follows:

Beginning loans receivable balance as of January 1, 2012	\$299,366
Loans made	40,230
Loan principal repaid	<u>(20,523)</u>
Ending loans receivable balance as of December 31, 2012	<u><u>\$319,073</u></u>
Cash balance on hand in the revolving loan fund as of December 31, 2012	\$128,079
Administrative costs expended during 2012	\$22,806

The table above reports gross loans receivable. Of the loans receivable as of December 31, 2012, none are more than 60 days past due.

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

NOTE D – REISSUANCE

The previously reissued audit report required a reissuance due to the City receiving the Congressionally Mandated Projects grant in 2014, which allowed them to claim expenditures dating back to 2012 for reimbursement. The expenditures relating to this project paid in 2012 of \$145,805 have been added to the Schedule. The adjustments do not have any effect on the basic financial statements.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fremont, Sandusky County, Ohio, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 20, 2013 wherein we noted the City implemented the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. In addition, the financial statements were restated pursuant to GASB 62 due to construction in progress and contracts payable adjustments related to the City's reservoir project settlements and the subsequent events note was updated to include an additional loan on January 9, 2014. On January 5, 2016, the Federal Awards Expenditures Schedule was restated to include expenditures relating to the Congressionally Mandated Projects grant, which was awarded in 2014, but allowed the City to claim expenditures dating back to 2012 for reimbursement.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

Internal Control Over Financial Reporting

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

September 20, 2013, except for the restatement and subsequent events note described above and finding 2012-001, which are as of January 9, 2014 and the Federal Awards Expenditures Schedule, which is as of January 5, 2016.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Fremont's, Sandusky County, Ohio (the City), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City of Fremont's major federal programs for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the City's major federal programs.

Management's Responsibility

The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for each of the City's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City's major programs. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Fremont complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

September 20, 2013

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #12.XXX – U.S. Army Corps of Engineers: Section 594 – Environmental/Infrastructure Program CFDA #20.205 – Highway Planning and Construction CFDA #66.202 – Congressionally Mandated Projects
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2012-001

Material Weakness

Financial Reporting

The City's management is responsible for the fair presentation of the financial statements. Errors were noted in the financial statements resulting in the following audit adjustments:

- Traffic light additions of \$109,108 were recorded as machinery and equipment rather than infrastructure;
- Revenues of \$3,485, expenditures of (\$159,500), and beginning fund balance of \$432,782 for the Walsh Trust were not properly included in a special revenue fund in accordance with the requirements of GASB 54;
- Prior period interfund payable in the General Fund and interfund receivable in the Walsh Trust Fund of \$318,987 were unrecorded;
- Interfund activity between the General Fund and the Walsh Trust Fund of \$163,000 was recorded as an expenditure and a negative expenditure rather than as a reduction of the interfund payable and interfund receivable, respectively.
- The previously issued audit report required reissuance due to under reporting \$9,733,682 in contracts payable and construction in progress for the Water Fund and Business Type Activities related to settlements paid in 2013 that were not accrued as of 12/31/2012.

The accompanying financial statements have been adjusted to correct these errors.

To ensure the City's financial statements and notes to the statements are complete and accurate, the City should adopt policies and procedures, including a final review of the annual report to identify and correct errors and misclassifications.

Officials' Response:

The City has legally binding documents in both Mr. Walsh's trust agreement and his will, which constitutes an externally enforceable legal restriction and restricts the financial resources to expenditures for capital outlays or other specified purposes other than debt service that Mr. Walsh intended with his gift to the City. Mr. Walsh's intentions and restrictions specified in his trust agreement would prohibit the City from using the funds he donated for general operating expenditures such as employee wages, departmental supplies or utilities within the General Fund.

The City maintains a cash-basis fund separate from the General Fund to account for the financial activity of the Walsh Trust throughout the year. Mr. Walsh's trust agreement and his will were provided to the City's accountants on May 1, 2013 for the preparation of the 2012 annual GAAP financial report.

3. FINDINGS FOR FEDERAL AWARDS

None

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Significant Deficiency due to errors in financial reporting.	No	Not corrected and repeated as finding 2012-001 in this report.
2011-002	Noncompliance Citation with Ohio Revised Code §2921.42, public official authorizing contracts he has an interest in.	Yes	

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Dave Yost • Auditor of State

CITY OF FREMONT

SANDUSKY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 26, 2016**