



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, 2013, 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, 2013, 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.

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 August 18, 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.

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 August 18, 2014, 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 initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

August 18, 2014, except for 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, 2013
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, 2013. 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 2013 are as follows:

- The total net position of the City increased \$7,533,716 or 7.96% from 2012. Net position of governmental activities increased \$923,977 or 2.97% from 2012 and net position of business-type activities increased \$6,609,739 or 10.40% over 2012.
- General revenues accounted for \$10,168,894 or 75.13% of total governmental activities revenue. Program specific revenues accounted for \$3,366,205 or 24.87% of total governmental activities revenue.
- The City had \$12,606,547 in expenses related to governmental activities; \$3,366,205 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$9,240,342 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$10,168,894.
- The general fund had revenues of \$10,101,676 in 2013. This represents an increase of \$47,203 or 0.47% from 2012. The expenditures and other financing uses of the general fund, which totaled \$9,195,319 in 2013, decreased \$905,937 or 8.97% from 2012. The net increase in fund balance for the general fund was \$906,357 or 17.28%.
- Net position for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2013 by \$6,609,739. This increase in net position was due primarily to increased charges for services, a special item for litigation settlement and decreases in loss on sale of capital assets and bond issuance costs during the year.
- In the general fund, actual revenues and other financing sources were \$66,342 more than the final budget revenues and other financing sources, and actual expenditures and other financing uses were \$630,077 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 \$366,390 from the original budget to the final budget, primarily due to an increase in leisure time activity expenditures.

Using this Annual Financial Report

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

The statement of net 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 finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

**UNAUDITED
(Continued)**

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 2013?" 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.

Governmental Funds

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

**CITY OF FREMONT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
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(Continued)**

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and 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. The table below provides a summary of the City's net position at December 31, 2013 and December 31, 2012.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED
(Continued)**

| | Net Position | | | | | |
|-----------------------------------|------------------------------------|----------------------|-------------------------------------|----------------------|-----------------------|-----------------------|
| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>2013 Total</u> | <u>2012 Total</u> |
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> | | |
| <u>Assets</u> | | | | | | |
| Current and other assets | \$ 14,945,657 | \$ 15,299,680 | \$ 21,759,293 | \$ 18,789,113 | \$ 36,704,950 | \$ 34,088,793 |
| Capital assets, net | <u>21,948,586</u> | <u>21,207,807</u> | <u>90,804,332</u> | <u>85,129,103</u> | <u>112,752,918</u> | <u>106,336,910</u> |
| Total assets | <u>36,894,243</u> | <u>36,507,487</u> | <u>112,563,625</u> | <u>103,918,216</u> | <u>149,457,868</u> | <u>140,425,703</u> |
| <u>Deferred Outflows</u> | | | | | | |
| | <u>75,856</u> | <u>89,242</u> | <u>-</u> | <u>-</u> | <u>75,856</u> | <u>89,242</u> |
| <u>Liabilities</u> | | | | | | |
| Long-term liabilities outstanding | 3,389,852 | 3,810,091 | 41,080,652 | 30,067,324 | 44,470,504 | 33,877,415 |
| Other liabilities | <u>796,699</u> | <u>989,753</u> | <u>1,319,743</u> | <u>10,297,401</u> | <u>2,116,442</u> | <u>11,287,154</u> |
| Total liabilities | <u>4,186,551</u> | <u>4,799,844</u> | <u>42,400,395</u> | <u>40,364,725</u> | <u>46,586,946</u> | <u>45,164,569</u> |
| <u>Deferred Inflows</u> | | | | | | |
| | <u>770,264</u> | <u>707,578</u> | <u>-</u> | <u>-</u> | <u>770,264</u> | <u>707,578</u> |
| <u>Net Position</u> | | | | | | |
| Net investment in capital assets | 20,064,342 | 19,037,516 | 49,213,527 | 45,686,516 | 69,277,869 | 64,724,032 |
| Restricted | 3,793,087 | 3,500,986 | - | - | 3,793,087 | 3,500,986 |
| Unrestricted | <u>8,155,855</u> | <u>8,550,805</u> | <u>20,949,703</u> | <u>17,866,975</u> | <u>29,105,558</u> | <u>26,417,780</u> |
| Total net position | <u>\$ 32,013,284</u> | <u>\$ 31,089,307</u> | <u>\$ 70,163,230</u> | <u>\$ 63,553,491</u> | <u>\$ 102,176,514</u> | <u>\$ 94,642,798</u> |

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2013, the City's assets and deferred outflows exceeded liabilities and deferred inflows by \$102,176,514. At year-end, net positions were \$32,013,284 and \$70,163,230 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 75.44% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress. The net investments in capital assets at December 31, 2013, were \$20,064,342 and \$49,213,527 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, 2013, 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, \$3,793,087 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 \$8,155,855

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
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(Continued)**

may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net position for fiscal years 2013 and 2012.

| | Change in Net Position | | | | | |
|--|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------|----------------------|
| | Governmental Activities | Governmental Activities | Business-type Activities | Business-type Activities | 2013 Total | 2012 Total |
| | 2013 | 2012 | 2013 | 2012 | | |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 947,478 | \$ 1,046,665 | \$ 13,700,421 | \$ 13,324,636 | \$ 14,647,899 | \$ 14,371,301 |
| Operating grants and contributions | 1,500,169 | 1,517,925 | - | - | 1,500,169 | 1,517,925 |
| Capital grants and contributions | 918,558 | 439,848 | 1,279,551 | 875,715 | 2,198,109 | 1,315,563 |
| Total program revenues | <u>3,366,205</u> | <u>3,004,438</u> | <u>14,979,972</u> | <u>14,200,351</u> | <u>18,346,177</u> | <u>17,204,789</u> |
| General revenues: | | | | | | |
| Property taxes | 884,697 | 949,317 | - | - | 884,697 | 949,317 |
| Income taxes | 8,092,941 | 7,385,935 | - | - | 8,092,941 | 7,385,935 |
| Unrestricted grants and entitlements | 608,832 | 820,319 | - | - | 608,832 | 820,319 |
| Investment earnings | 85,203 | 20,389 | 613 | 23,744 | 85,816 | 44,133 |
| Miscellaneous | 497,221 | 360,984 | 110,935 | 25,673 | 608,156 | 386,657 |
| Total general revenues | <u>10,168,894</u> | <u>9,536,944</u> | <u>111,548</u> | <u>49,417</u> | <u>10,280,442</u> | <u>9,586,361</u> |
| Total revenues | <u>13,535,099</u> | <u>12,541,382</u> | <u>15,091,520</u> | <u>14,249,768</u> | <u>28,626,619</u> | <u>26,791,150</u> |
| Expenses: | | | | | | |
| General government | 2,497,908 | 2,401,425 | - | - | 2,497,908 | 2,401,425 |
| Security of persons and property | 5,919,748 | 6,419,803 | - | - | 5,919,748 | 6,419,803 |
| Public health and welfare | 4,436 | 3,845 | - | - | 4,436 | 3,845 |
| Transportation | 1,549,581 | 1,522,610 | - | - | 1,549,581 | 1,522,610 |
| Community environment | 381,153 | 486,881 | - | - | 381,153 | 486,881 |
| Leisure time activity | 1,916,707 | 1,961,433 | - | - | 1,916,707 | 1,961,433 |
| Economic development | 250,259 | 155,412 | - | - | 250,259 | 155,412 |
| Interest and fiscal charges | 86,755 | 106,939 | - | - | 86,755 | 106,939 |
| Bond issuance costs | - | 39,979 | - | - | - | 39,979 |
| Water | - | - | 6,043,433 | 5,504,317 | 6,043,433 | 5,504,317 |
| Sewer | - | - | 3,943,080 | 3,908,787 | 3,943,080 | 3,908,787 |
| Total expenses | <u>12,606,547</u> | <u>13,098,327</u> | <u>9,986,513</u> | <u>9,413,104</u> | <u>22,593,060</u> | <u>22,511,431</u> |
| Increase (decrease) in net position before transfers and special item | 928,552 | (556,945) | 5,105,007 | 4,836,664 | 6,033,559 | 4,279,719 |
| Transfers | (4,575) | (79,371) | 4,575 | 79,371 | - | - |
| Special item: Litigation settlement | - | - | 1,500,157 | - | 1,500,157 | - |
| Increase (decrease) in net position | 923,977 | (636,316) | 6,609,739 | 4,916,035 | 7,533,716 | 4,279,719 |
| Net position at beginning 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> |
| Net position at end of year | <u>\$ 32,013,284</u> | <u>\$ 31,089,307</u> | <u>\$ 70,163,230</u> | <u>\$ 63,553,491</u> | <u>\$ 102,176,514</u> | <u>\$ 94,642,798</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED
(Continued)**

Governmental Activities

Governmental activities net position increased \$923,977 in 2013. This increase is a result of increased revenues.

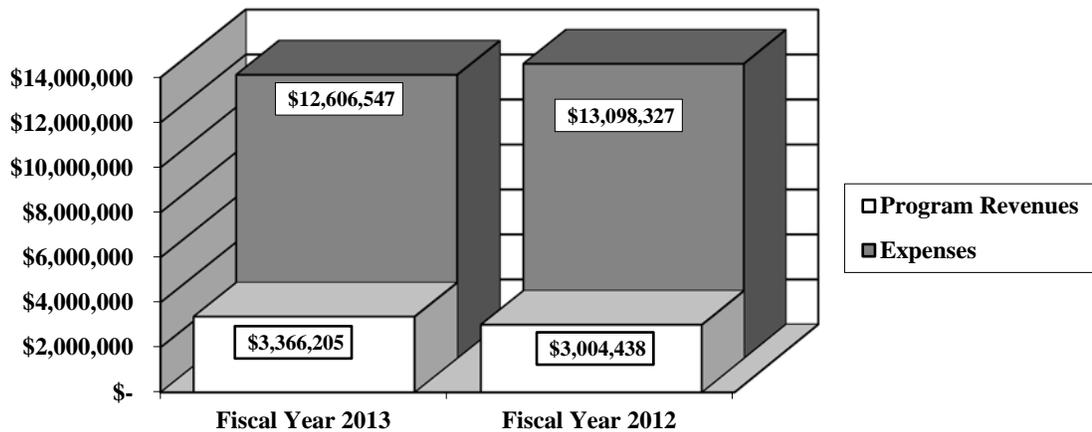
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$5,919,748 of the total expenses of the City. These expenses were partially funded by \$18,203 in direct charges to users of the services. General government expenses totaled \$2,497,908. General government expenses were partially funded by \$480,245 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$1,500,169 in operating grants and contributions and \$918,558 in capital improvement and contributions. These revenues are restricted to a particular program or purpose. The total capital improvement and contributions subsidized transportation programs. Of the total operating grants and contributions, \$818,772 subsidized transportation programs, and \$405,340 subsidized community environment activities.

General revenues totaled \$10,168,894 and amounted to 75.13% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,977,638. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue making up \$608,832.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities – Program Revenues vs. Total Expenses



**CITY OF FREMONT
SANDUSKY COUNTY**

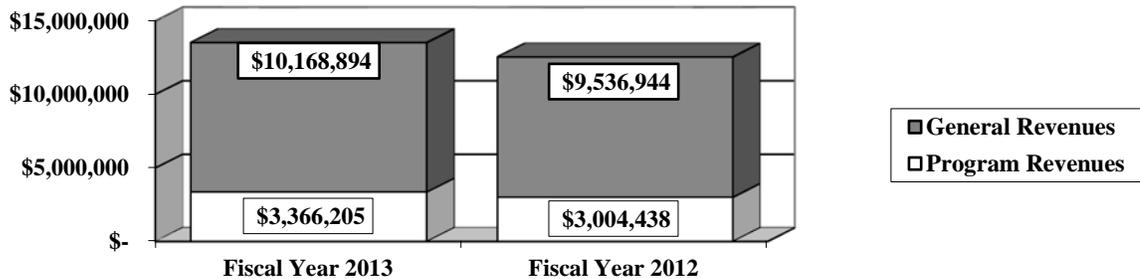
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
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(Continued)**

Governmental Activities

| | Total Cost of Services 2013 | Net Cost of Services 2013 | Total Cost of Services 2012 | Net Cost of Services 2012 |
|----------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Program Expenses: | | | | |
| General government | \$ 2,497,908 | \$ 1,813,298 | \$ 2,401,425 | \$ 1,856,078 |
| Security of persons and property | 5,919,748 | 5,876,534 | 6,419,803 | 6,362,606 |
| Public health and welfare | 4,436 | 4,436 | 3,845 | 3,845 |
| Transportation | 1,549,581 | (222,837) | 1,522,610 | (153,896) |
| Community environment | 381,153 | (24,187) | 486,881 | 225,049 |
| Leisure time activity | 1,916,707 | 1,463,600 | 1,961,433 | 1,508,355 |
| Economic development | 250,259 | 242,743 | 155,412 | 144,934 |
| Interest and fiscal charges | 86,755 | 86,755 | 106,939 | 106,939 |
| Bond issuance costs | - | - | 39,979 | 39,979 |
| Total | \$ 12,606,547 | \$ 9,240,342 | \$ 13,098,327 | \$ 10,093,889 |

The dependence upon general revenues for governmental activities is apparent, with 73.30% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



Business-type Activities

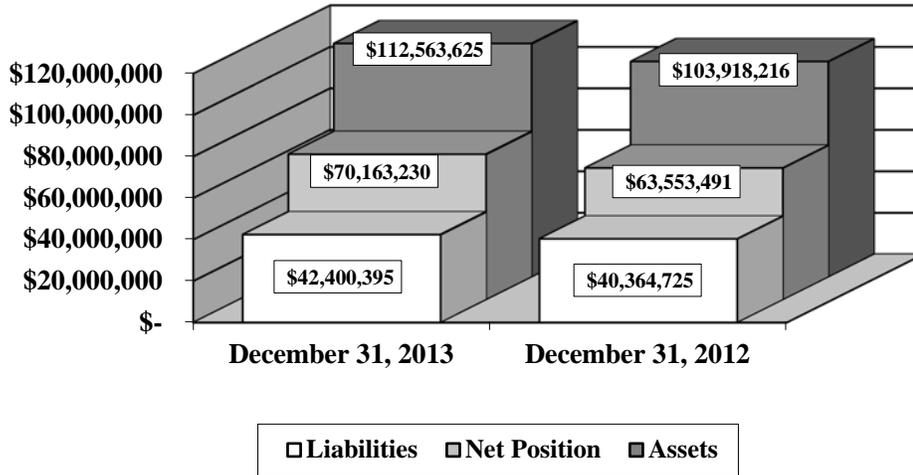
Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$14,979,972, general revenues of \$111,548, transfers in of \$4,575, a special item for a litigation settlement of \$1,500,157 and expenses of \$9,986,513 for 2013.

The graph below illustrates the City's business-type assets, liabilities, and net position at December 31, 2013 and December 31, 2012.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
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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, unassigned 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 \$11,230,891 which is \$312,757 less than last year's total of \$11,543,648. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2013 for all major and nonmajor governmental funds.

| | Fund Balances <u>12/31/13</u> | Fund Balances <u>12/31/12</u> | Increase <u>(Decrease)</u> |
|-----------------------------------|----------------------------------|----------------------------------|-------------------------------|
| General fund | \$ 6,152,696 | \$ 5,246,339 | \$ 906,357 |
| Other nonmajor governmental funds | <u>5,078,195</u> | <u>6,297,309</u> | <u>(1,219,114)</u> |
| Total | <u>\$ 11,230,891</u> | <u>\$ 11,543,648</u> | <u>\$ (312,757)</u> |

General Fund

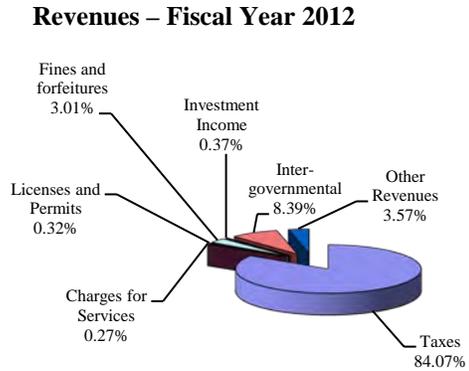
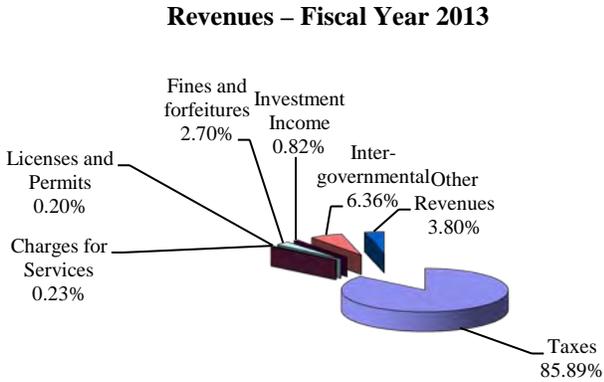
The City's general fund balance increased \$906,357. The table that follows assists in illustrating the revenues of the general fund.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED
(Continued)**

| | <u>2013</u> <u>Amount</u> | <u>2012</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Taxes | \$ 8,675,875 | \$ 8,436,269 | 2.84 % |
| Charges for services | 23,638 | 27,308 | (13.44) % |
| Licenses and permits | 20,083 | 31,691 | (36.63) % |
| Fines and forfeitures | 272,508 | 301,737 | (9.69) % |
| Intergovernmental | 642,620 | 841,415 | (23.63) % |
| Investment income | 83,241 | 37,602 | 121.37 % |
| Other | <u>383,711</u> | <u>358,451</u> | 7.05 % |
| Total | <u>\$ 10,101,676</u> | <u>\$ 10,034,473</u> | 0.67 % |

Tax revenue represents 85.89% of all general fund revenue. The charges for services decrease was primarily due to a decrease in web check fees. The decrease in licenses and permits is primarily due to a decrease in internet café permits in 2013. Intergovernmental revenues decreased 23.63% due to the City no longer receiving estate tax in 2013. The increase in investment income is due to increased fair market value on the City's investment portfolio. All other revenue remained comparable to 2012.



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

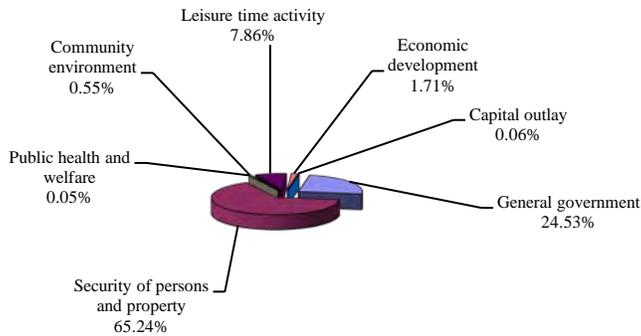
**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED
(Continued)**

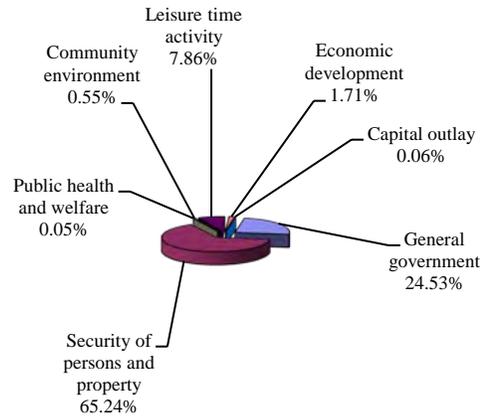
| <u>Expenditures</u> | <u>2013 Amount</u> | <u>2012 Amount</u> | <u>Percentage Change</u> |
|----------------------------------|------------------------|------------------------|------------------------------|
| General government | \$ 2,065,357 | \$ 2,215,058 | (6.76) % |
| Security of persons and property | 5,492,843 | 5,308,636 | 3.47 % |
| Public health and welfare | 4,436 | 3,768 | 17.73 % |
| Community environment | 46,316 | 70,227 | (34.05) % |
| Leisure time activity | 661,422 | 651,527 | 1.52 % |
| Economic development | 143,855 | 118,875 | 21.01 % |
| Capital outlay | 5,090 | 5,165 | (1.45) % |
| Total | \$ 8,419,319 | \$ 8,373,256 | 0.55 % |

Community environment expenditures decreased 34.05% due to a decrease in zoning and planning expenditures. Economic development expenditures increased 21.01% due to severance for known retirees. All other expenditures remained comparable to 2012.

Expenditures - Fiscal Year 2013



Expenditures - Fiscal Year 2013



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 \$366,390 from \$8,797,447 to \$9,163,837. Actual revenues and other financing sources of \$8,858,242

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED
(Continued)**

were more than final budgeted revenues and other financing sources by \$66,342. 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 \$630,077 lower than the final budgeted amounts.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2013, the City had \$112,752,918 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress (CIP). Of this total, \$21,948,586 was reported in governmental activities and \$90,804,332 was reported in business-type activities. See Note 10 for further description of capital assets. The following table shows fiscal 2013 balances compared to 2012:

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

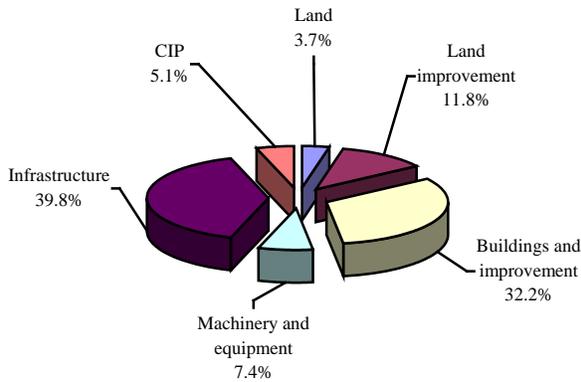
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|----------------------------|--------------------------------|----------------------|---------------------------------|----------------------|-----------------------|-----------------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| Land | \$ 809,559 | \$ 809,559 | \$ 903,988 | \$ 903,988 | \$ 1,713,547 | \$ 1,713,547 |
| Land improvements | 2,587,003 | 2,790,132 | 38,081,265 | 1,195,757 | 40,668,268 | 3,985,889 |
| Buildings and improvements | 7,064,337 | 7,367,011 | 22,872,484 | 19,611,933 | 29,936,821 | 26,978,944 |
| Machinery and equipment | 1,615,098 | 1,841,856 | 1,767,360 | 2,026,933 | 3,382,458 | 3,868,789 |
| Infrastructure | 8,756,581 | 7,896,669 | 17,650,134 | 15,558,398 | 26,406,715 | 23,455,067 |
| Construction in progress | <u>1,116,008</u> | <u>502,580</u> | <u>9,529,101</u> | <u>45,832,094</u> | <u>10,645,109</u> | <u>46,334,674</u> |
| Totals | <u>\$ 21,948,586</u> | <u>\$ 21,207,807</u> | <u>\$ 90,804,332</u> | <u>\$ 85,129,103</u> | <u>\$ 112,752,918</u> | <u>\$ 106,336,910</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

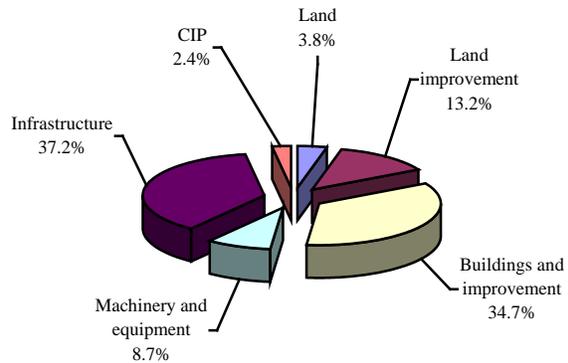
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED
(Continued)**

The following graphs show the breakdown of governmental capital assets by category for 2013 and 2012.

Capital Assets - Governmental Activities 2013



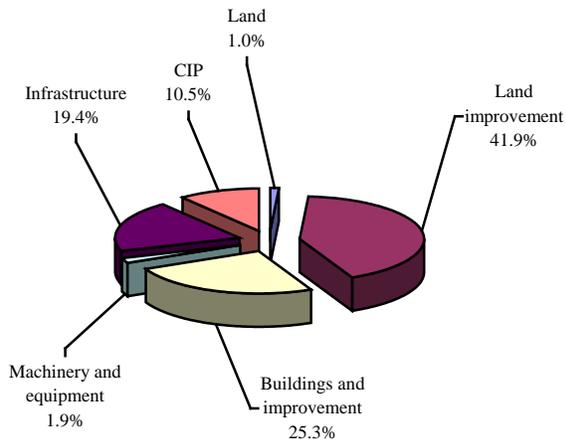
Capital Assets - Governmental Activities 2012



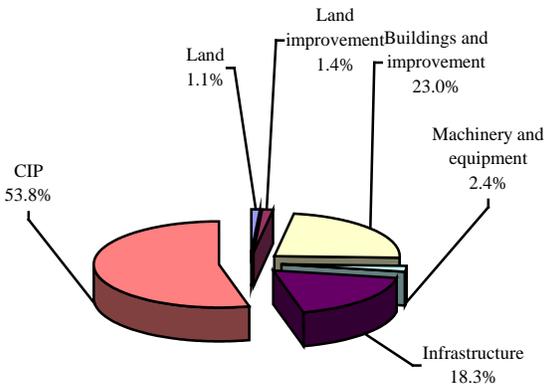
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 39.89% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2013 and 2012.

Capital Assets - Business-Type Activities 2013



Capital Assets - Business-Type Activities 2012



**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED
(Continued)**

The City's third largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 19.44% of the City's total business-type capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2013 and 2012:

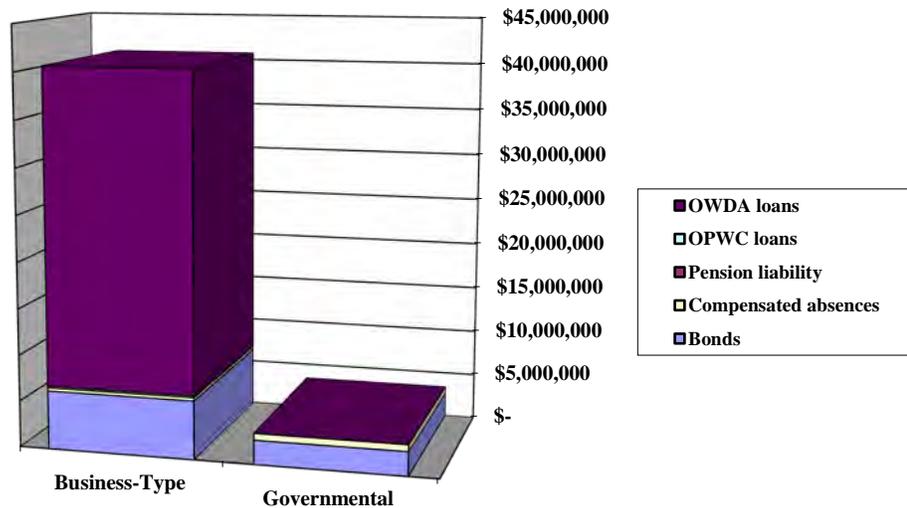
| | Governmental Activities | |
|------------------------------------|-----------------------------|-----------------------------|
| | <u>2013</u> | <u>2012</u> |
| Compensated absences | \$ 729,752 | \$ 805,558 |
| General obligation bonds | <u>2,605,000</u> | <u>2,940,000</u> |
| Total long-term obligations | <u>\$ 3,334,752</u> | <u>\$ 3,745,558</u> |
| | Business-type Activities | |
| | <u>2013</u> | <u>2012</u> |
| General obligation bonds | \$ 6,325,000 | \$ 6,900,000 |
| OPWC loans | 184,918 | 204,143 |
| OWDA loans | 33,846,143 | 22,200,047 |
| Compensated absences | <u>353,838</u> | <u>358,419</u> |
| Total long-term obligations | <u>\$ 40,709,899</u> | <u>\$ 29,662,609</u> |

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED
(Continued)**

Long-term obligations



Economic Conditions and Outlook

As the economy of the City of Fremont gained renewed vitality during 2013, in August more than 14,000 visitors came to the City’s historic downtown district for the celebration of the Bicentennial of the Battle of Fort Stephenson and the War of 1812. Local residents and visitors from numerous states were represented at events such as re-enactments at the site of Fort Stephenson, the Heritage Walk, Peninsular Farm tours, as well as a parade and fireworks display. Hotels reported occupancy rates as high as 80% during the month of August, resulting in a 15.36% increase in the city's bed tax revenue. Based on this success, future annual events are being planned to mark local contributions to the War of 1812.

Overall, the growth of economic activity in Fremont has shown a cash basis increase of income tax revenue from approximately \$7.9 million in 2013 to \$8.4 million in 2014; an increase of over 6%. This growth was reflected in all levels of the local economy from large manufacturers, to smaller retail and service businesses.

In order to further this growth, the energies of the City's office of Economic Development were directed in 2013 toward organizing a series of steering committee meetings, focus group sessions, leadership interviews and conducting other research in development of the City's first-ever economic strategic plan. The BIG Fremont plan process, as it is known, has been two years in the making and will initially present a report sketching what Fremonters want as the town's economic development priorities. The report, to be released in mid-2014, will call for the retention and expansion of the area's industrial base, the revitalization of the city's historic downtown district, marketing the city beyond the immediate area, and enhancing the climate for entrepreneurs.

One of the most visible accomplishments of the year was the announcement that H.J. Heinz Co. will expand its Fremont facility following the sale of the company to an investor group including Berkshire Hathaway, the firm led by Warren Buffett. As with any sale of a major employer, the sale sparked fears that the Heinz Fremont facility could be downgraded, or closed altogether. Instead, the new owners announced a \$12 million investment in new plant and equipment, and the addition of 25 jobs. Several other local manufacturers also announced expansion plans in 2013.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
UNAUDITED
(Continued)**

Fremont's historic downtown is now in the enviable position of having only a limited number of store fronts available. A few storefront businesses opened in 2013, and a paint-your-own pottery store is planned for 2014. Street fair events and seasonal farmer's markets continued to bring people into the downtown area. The most visible challenge remains the vacant lots at the intersection of State and Front Streets.

Infrastructure projects remain on schedule and on budget. Construction on the city's new wastewater treatment facility began in 2013 and when completed will greatly enhance the city's ability to manage storm runoff, as well as treating much greater quantities of wastewater from industrial, commercial and residential sources. Additional investments are being planned that will extend and upgrade City utility services to existing and potential businesses in neighboring Sandusky and Ballville Townships.

The unemployment rate in Fremont and Sandusky County has declined over the course of 2013 but remains above the state and national averages. In addition, research conducted as part of the BIG Fremont project demonstrates that Fremont area residents continue to lag behind the state and the country in income and property values:

- The median income in Fremont is \$38,907, roughly \$9,000 less than statewide
- 15.5% of Fremont families live in poverty; 10.8% statewide
- Median value of a housing unit in Fremont is \$88,200, much lower than the statewide median value of \$135,600

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.

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**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF NET POSITION
DECEMBER 31, 2013

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|-----------------------|
| Assets: | | | |
| Equity in pooled cash and investments | \$ 10,291,516 | \$ 19,127,979 | \$ 29,419,495 |
| Receivables (net of allowances for uncollectibles): | | | |
| Income taxes | 2,715,557 | - | 2,715,557 |
| Property and other local taxes | 850,480 | - | 850,480 |
| Accounts | 37,375 | 2,066,389 | 2,103,764 |
| Loans | 312,906 | - | 312,906 |
| Accrued interest | 9,593 | - | 9,593 |
| Due from other governments | 639,980 | 36,445 | 676,425 |
| Materials and supplies inventory | 88,260 | 450,945 | 539,205 |
| Internal balance | (10) | 10 | - |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents | - | 77,525 | 77,525 |
| Capital assets: | | | |
| Land and construction in progress | 1,925,567 | 10,433,089 | 12,358,656 |
| Depreciable capital assets, net | 20,023,019 | 80,371,243 | 100,394,262 |
| Total capital assets, net | <u>21,948,586</u> | <u>90,804,332</u> | <u>112,752,918</u> |
| Total assets | <u>36,894,243</u> | <u>112,563,625</u> | <u>149,457,868</u> |
| Deferred outflows of resources: | | | |
| Unamortized deferred charges on debt refunding | 75,856 | - | 75,856 |
| Liabilities: | | | |
| Accounts payable | 315,025 | 171,947 | 486,972 |
| Contracts payable | - | 863,991 | 863,991 |
| Accrued wages and benefits | 389,518 | 179,910 | 569,428 |
| Due to other governments | 2,677 | 417 | 3,094 |
| Pension obligation payable | 55,375 | 18,911 | 74,286 |
| Due to claimants | 12,646 | - | 12,646 |
| Accrued interest payable | 21,458 | 7,042 | 28,500 |
| Payable from restricted assets: | | | |
| Refundable deposits | - | 77,525 | 77,525 |
| Long-term liabilities: | | | |
| Due within one year | 451,514 | 670,144 | 1,121,658 |
| Due in more than one year | 2,938,338 | 40,410,508 | 43,348,846 |
| Total liabilities | <u>4,186,551</u> | <u>42,400,395</u> | <u>46,586,946</u> |
| Deferred inflows of resources: | | | |
| Property taxes levied for the next year | 770,264 | - | 770,264 |
| Net position: | | | |
| Net investment in capital assets | 20,064,342 | 49,213,527 | 69,277,869 |
| Restricted for: | | | |
| Debt service | 36,284 | - | 36,284 |
| Transportation projects | 1,216,806 | - | 1,216,806 |
| Police and fire pension | 763,302 | - | 763,302 |
| Revolving loans | 368,873 | - | 368,873 |
| R.L. Walsh Trust | 719,202 | - | 719,202 |
| Other purposes | 688,620 | - | 688,620 |
| Unrestricted | <u>8,155,855</u> | <u>20,949,703</u> | <u>29,105,558</u> |
| Total net position | <u>\$ 32,013,284</u> | <u>\$ 70,163,230</u> | <u>\$ 102,176,514</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

| | Expenses | Program Revenues | | |
|--|----------------------|-----------------------------------|---------------------------------------|-------------------------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities: | | | | |
| General government. | \$ 2,497,908 | \$ 480,245 | \$ 204,365 | \$ - |
| Security of persons and property . . | 5,919,748 | 18,203 | 25,011 | - |
| Public health and welfare | 4,436 | - | - | - |
| Transportation. | 1,549,581 | 35,088 | 818,772 | 918,558 |
| Community environment | 381,153 | - | 405,340 | - |
| Leisure time activity. | 1,916,707 | 413,942 | 39,165 | - |
| Economic development | 250,259 | - | 7,516 | - |
| Interest and fiscal charges. | 86,755 | - | - | - |
| Total governmental activities . . . | <u>12,606,547</u> | <u>947,478</u> | <u>1,500,169</u> | <u>918,558</u> |
| Business-type activities: | | | | |
| Water | 6,043,433 | 6,012,977 | - | 1,279,551 |
| Sewer | 3,943,080 | 7,687,444 | - | - |
| Total business-type activities | <u>9,986,513</u> | <u>13,700,421</u> | <u>-</u> | <u>1,279,551</u> |
| Total primary government | <u>\$ 22,593,060</u> | <u>\$ 14,647,899</u> | <u>\$ 1,500,169</u> | <u>\$ 2,198,109</u> |

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 |
| Special item: Litigation settlement |
| Transfers |
| Total general revenues, transfers and special items |
| Change in net position |
| Net position at beginning of year |
| 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 |
|------------------------------------|-------------------------------------|----------------|
| \$ (1,813,298) | \$ - | \$ (1,813,298) |
| (5,876,534) | - | (5,876,534) |
| (4,436) | - | (4,436) |
| 222,837 | - | 222,837 |
| 24,187 | - | 24,187 |
| (1,463,600) | - | (1,463,600) |
| (242,743) | - | (242,743) |
| (86,755) | - | (86,755) |
| (9,240,342) | - | (9,240,342) |
| - | 1,249,095 | 1,249,095 |
| - | 3,744,364 | 3,744,364 |
| - | 4,993,459 | 4,993,459 |
| (9,240,342) | 4,993,459 | (4,246,883) |
| 8,092,941 | - | 8,092,941 |
| 759,103 | - | 759,103 |
| 62,797 | - | 62,797 |
| 62,797 | - | 62,797 |
| 608,832 | - | 608,832 |
| 85,203 | 613 | 85,816 |
| 497,221 | 110,935 | 608,156 |
| 10,168,894 | 111,548 | 10,280,442 |
| - | 1,500,157 | 1,500,157 |
| (4,575) | 4,575 | - |
| 10,164,319 | 1,616,280 | 11,780,599 |
| 923,977 | 6,609,739 | 7,533,716 |
| 31,089,307 | 63,553,491 | 94,642,798 |
| \$ 32,013,284 | \$ 70,163,230 | \$ 102,176,514 |

**CITY OF FREMONT
SANDUSKY COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---|---|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 4,893,177 | \$ 5,380,424 | \$ 10,273,601 |
| Receivables (net of allowance for uncollectibles): | | | |
| Income taxes | 2,715,557 | - | 2,715,557 |
| Property and other local taxes | 850,480 | - | 850,480 |
| Accounts | 6,450 | 30,925 | 37,375 |
| Interfund loans | 550,000 | - | 550,000 |
| Accrued interest | 9,593 | - | 9,593 |
| Loans | - | 312,906 | 312,906 |
| Due from other funds | 1,271 | - | 1,271 |
| Due from other governments | 275,214 | 364,766 | 639,980 |
| Materials and supplies inventory | - | 88,260 | 88,260 |
| | <u>\$ 9,301,742</u> | <u>\$ 6,177,281</u> | <u>\$ 15,479,023</u> |
| Total assets | <u>\$ 9,301,742</u> | <u>\$ 6,177,281</u> | <u>\$ 15,479,023</u> |
| Liabilities: | | | |
| Accounts payable | \$ 66,774 | \$ 247,729 | \$ 314,503 |
| Accrued wages and benefits payable | 322,747 | 63,664 | 386,411 |
| Due to other governments | 2,677 | - | 2,677 |
| Compensated absences payable | 55,034 | - | 55,034 |
| Interfund loans payable | - | 550,000 | 550,000 |
| Due to other funds | - | 1,271 | 1,271 |
| Pension obligation payable | 48,000 | 7,051 | 55,051 |
| Due to claimants | 12,646 | - | 12,646 |
| | <u>507,878</u> | <u>869,715</u> | <u>1,377,593</u> |
| Total liabilities | <u>507,878</u> | <u>869,715</u> | <u>1,377,593</u> |
| Deferred inflows of resources: | | | |
| Property taxes levied for the next year | 770,264 | - | 770,264 |
| Delinquent property tax revenue not available | 80,216 | - | 80,216 |
| Accrued interest not available | 9,593 | - | 9,593 |
| Income tax revenue not available | 1,606,579 | - | 1,606,579 |
| Nonexchange transactions | 174,516 | 229,371 | 403,887 |
| | <u>2,641,168</u> | <u>229,371</u> | <u>2,870,539</u> |
| Total deferred inflows of resources | <u>2,641,168</u> | <u>229,371</u> | <u>2,870,539</u> |
| Fund balances: | | | |
| Nonspendable | - | 88,260 | 88,260 |
| Restricted | - | 3,546,298 | 3,546,298 |
| Committed | 4,113,128 | 1,265,642 | 5,378,770 |
| Assigned | 326,333 | 181,984 | 508,317 |
| Unassigned (deficit) | 1,713,235 | (3,989) | 1,709,246 |
| | <u>6,152,696</u> | <u>5,078,195</u> | <u>11,230,891</u> |
| Total fund balances | <u>6,152,696</u> | <u>5,078,195</u> | <u>11,230,891</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 9,301,742</u> | <u>\$ 6,177,281</u> | <u>\$ 15,479,023</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, 2013

| | | | |
|---|----|-------------|-------------|
| Total governmental fund balances | | \$ | 11,230,891 |
| <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. | | | 21,948,586 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds. | | | |
| Income taxes receivable | \$ | 1,606,579 | |
| Property and other local taxes receivable | | 80,216 | |
| Due from other governments | | 403,887 | |
| Accrued interest receivable | | 9,593 | |
| Total | | 2,100,275 | 2,100,275 |
| 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. | | | 13,962 |
| An internal balance is recorded in the business-type activities to reflect underpayments to the internal service fund by the governmental activities | | | (10) |
| In the statement of net position interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due. | | | (21,458) |
| Unamortized premiums on bond issuances are not recognized in the funds. | | | (55,100) |
| Unamortized deferred amounts on refundings are not recognized in the governmental funds. | | | 75,856 |
| 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 | | (2,605,000) | |
| Compensated absences | | (674,718) | |
| Total | | (3,279,718) | (3,279,718) |
| Net position of governmental activities | | \$ | 32,013,284 |

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, 2013

| | General | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | |
| Income taxes | \$ 7,922,163 | \$ - | \$ 7,922,163 |
| Property and other local taxes | 753,712 | 142,850 | 896,562 |
| Charges for services | 23,638 | 414,942 | 438,580 |
| Licenses, permits and fees | 20,083 | - | 20,083 |
| Fines and forfeitures | 272,508 | 180,554 | 453,062 |
| Intergovernmental | 642,620 | 2,288,187 | 2,930,807 |
| Special assessments | - | 35,753 | 35,753 |
| Investment income | 83,241 | 7,607 | 90,848 |
| Other | 383,711 | 265,085 | 648,796 |
| Total revenues | 10,101,676 | 3,334,978 | 13,436,654 |
| Expenditures: | | | |
| Current: | | | |
| General government | 2,065,357 | 383,913 | 2,449,270 |
| Security of persons and property | 5,492,843 | 262,866 | 5,755,709 |
| Public health and welfare | 4,436 | - | 4,436 |
| Transportation | - | 914,549 | 914,549 |
| Community environment | 46,316 | 335,931 | 382,247 |
| Leisure time activity | 661,422 | 802,566 | 1,463,988 |
| Economic development and assistance | 143,855 | 85,875 | 229,730 |
| Capital outlay | 5,090 | 2,123,440 | 2,128,530 |
| Debt service: | | | |
| Principal retirement | - | 335,000 | 335,000 |
| Interest and fiscal charges | - | 85,952 | 85,952 |
| Total expenditures | 8,419,319 | 5,330,092 | 13,749,411 |
| Excess (deficiency) of revenues over (under) expenditures | 1,682,357 | (1,995,114) | (312,757) |
| Other financing sources (uses): | | | |
| Transfers in | - | 776,000 | 776,000 |
| Transfers out | (776,000) | - | (776,000) |
| Total other financing sources (uses) | (776,000) | 776,000 | - |
| Net change in fund balances | 906,357 | (1,219,114) | (312,757) |
| Fund balances at beginning of year | 5,246,339 | 6,297,309 | 11,543,648 |
| Fund balances at end of year | \$ 6,152,696 | \$ 5,078,195 | \$ 11,230,891 |

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, 2013

Net change in fund balances - total governmental funds \$ (312,757)

*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 capital outlays exceeded depreciation expense in the current period.

| | | |
|---------------------------|----------------|----------------|
| Capital asset additions | \$ 2,324,830 | |
| Current year depreciation | (1,579,838) | |
| Total | 744,992 | 744,992 |

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. (4,213)

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

| | | |
|---------------------------|---------------|---------------|
| Delinquent property taxes | (11,865) | |
| Intergovernmental | (54,823) | |
| Municipal income taxes | 170,778 | |
| Interest | (5,645) | |
| Total | 98,445 | 98,445 |

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. 335,000

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 | 3,150 | |
| Amortization of deferred amounts on refunding | (13,386) | |
| Amortization of bond premiums | 9,433 | |
| Total | (803) | (803) |

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. 63,285

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 (\$53), is allocated among the governmental activities.

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Change in net position of governmental activities \$ 923,977

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, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Positive (Negative) |
|---|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | <u>(Negative)</u> |
| Revenues: | | | | |
| Property and other local taxes | \$ 428,606 | \$ 748,500 | \$ 750,152 | \$ 1,652 |
| Charges for services. | 10,507 | 18,350 | 26,763 | 8,413 |
| Licenses, permits and fees | 10,908 | 19,050 | 20,083 | 1,033 |
| Fines and forfeitures | 151,172 | 264,000 | 271,057 | 7,057 |
| Intergovernmental. | 489,590 | 855,000 | 831,634 | (23,366) |
| Investment income. | 28,631 | 50,000 | 67,714 | 17,714 |
| Other | 75,586 | 132,000 | 182,880 | 50,880 |
| Total revenues | <u>1,195,000</u> | <u>2,086,900</u> | <u>2,150,283</u> | <u>63,383</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,832,448 | 1,885,927 | 1,642,022 | 243,905 |
| Security of persons and property | 6,110,639 | 6,157,439 | 5,995,861 | 161,578 |
| Public health and welfare. | 10,087 | 10,087 | 9,188 | 899 |
| Community environment | 58,505 | 62,805 | 47,207 | 15,598 |
| Leisure time activity | 653,010 | 914,821 | 712,655 | 202,166 |
| Economic development and assistance | 130,758 | 130,758 | 124,827 | 5,931 |
| Total expenditures | <u>8,795,447</u> | <u>9,161,837</u> | <u>8,531,760</u> | <u>630,077</u> |
| Excess of expenditures over revenues | <u>(7,600,447)</u> | <u>(7,074,937)</u> | <u>(6,381,477)</u> | <u>693,460</u> |
| Other financing sources (uses): | | | | |
| Sale of capital assets. | 5,000 | 5,000 | 7,959 | 2,959 |
| Transfers in | 6,500,000 | 6,700,000 | 6,700,000 | - |
| Transfers out | (2,000) | (2,000) | (2,000) | - |
| Total other financing sources (uses) | <u>6,503,000</u> | <u>6,703,000</u> | <u>6,705,959</u> | <u>2,959</u> |
| Net change in fund balance | (1,097,447) | (371,937) | 324,482 | 696,419 |
| Fund balance at beginning of year | 1,681,095 | 1,681,095 | 1,681,095 | - |
| Prior year encumbrances appropriated | 164,373 | 164,373 | 164,373 | - |
| Fund balance at end of year | <u>\$ 748,021</u> | <u>\$ 1,473,531</u> | <u>\$ 2,169,950</u> | <u>\$ 696,419</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

| | <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 | \$ 4,825,498 | \$ 14,302,481 | \$ 19,127,979 | \$ 17,915 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Accounts | 1,048,633 | 1,017,756 | 2,066,389 | - |
| Due from other governments. | - | 36,445 | 36,445 | - |
| Materials and supplies inventory | 420,769 | 30,176 | 450,945 | - |
| Noncurrent assets: | | | | |
| Restricted assets: | | | | |
| Equity in pooled cash and cash equivalents | 77,525 | - | 77,525 | - |
| Capital assets: | | | | |
| Land and construction in progress | 800,604 | 9,632,485 | 10,433,089 | - |
| Depreciable capital assets, net | <u>72,501,647</u> | <u>7,869,596</u> | <u>80,371,243</u> | - |
| Total capital assets, net | <u>73,302,251</u> | <u>17,502,081</u> | <u>90,804,332</u> | - |
| Total assets | <u>79,674,676</u> | <u>32,888,939</u> | <u>112,563,615</u> | <u>17,915</u> |
| Liabilities: | | | | |
| Current liabilities: | | | | |
| Accounts payable | 92,139 | 79,808 | 171,947 | 522 |
| Contracts payable | - | 863,991 | 863,991 | - |
| Accrued wages and benefits payable | 80,580 | 99,330 | 179,910 | 3,107 |
| Due to other governments | - | 417 | 417 | - |
| Pension obligation payable | 8,520 | 10,391 | 18,911 | 324 |
| Accrued interest payable | 7,042 | - | 7,042 | - |
| Current portion of compensated absences | 19,774 | 31,146 | 50,920 | - |
| Current portion of general obligation bonds payable | 600,000 | - | 600,000 | - |
| Current portion of OPWC loans payable | - | 19,224 | 19,224 | - |
| Payable from restricted assets: | | | | |
| Refundable deposits | <u>77,525</u> | - | <u>77,525</u> | - |
| Total current liabilities | <u>885,580</u> | <u>1,104,307</u> | <u>1,989,887</u> | <u>3,953</u> |
| Long-term liabilities: | | | | |
| Compensated absences payable | 124,659 | 178,259 | 302,918 | - |
| General obligation bonds payable | 6,095,753 | - | 6,095,753 | - |
| OWDA loans payable | 27,501,745 | 6,344,398 | 33,846,143 | - |
| OPWC loans payable | - | 165,694 | 165,694 | - |
| Total long-term liabilities | <u>33,722,157</u> | <u>6,688,351</u> | <u>40,410,508</u> | - |
| Total liabilities | <u>34,607,737</u> | <u>7,792,658</u> | <u>42,400,395</u> | <u>3,953</u> |
| Net position: | | | | |
| Net investment in capital assets | 39,104,753 | 10,108,774 | 49,213,527 | - |
| Unrestricted | <u>5,962,186</u> | <u>14,987,507</u> | <u>20,949,693</u> | <u>13,962</u> |
| Total net position | <u>\$ 45,066,939</u> | <u>\$ 25,096,281</u> | <u>70,163,220</u> | <u>\$ 13,962</u> |
| Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds | | | <u>10</u> | |
| Net position of business-type activities | | | <u>\$ 70,163,230</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, 2013

| | <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 | \$ 6,000,639 | \$ 7,687,444 | \$ 13,688,083 | \$ 75,675 |
| Tap-in fees | 12,338 | - | 12,338 | - |
| Other | 101,311 | 8,574 | 109,885 | - |
| Total operating revenues | <u>6,114,288</u> | <u>7,696,018</u> | <u>13,810,306</u> | <u>75,675</u> |
| Operating expenses: | | | | |
| Personal services | 1,600,606 | 2,033,805 | 3,634,411 | 61,482 |
| Contract services | 642,486 | 430,631 | 1,073,117 | 4,379 |
| Materials and supplies | 677,728 | 368,290 | 1,046,018 | 1,258 |
| Utilities expense | 353,463 | 448,509 | 801,972 | 6,988 |
| Depreciation | 1,807,286 | 455,934 | 2,263,220 | - |
| Other | 83,761 | 83,569 | 167,330 | 1,487 |
| Total operating expenses | <u>5,165,330</u> | <u>3,820,738</u> | <u>8,986,068</u> | <u>75,594</u> |
| Operating income | <u>948,958</u> | <u>3,875,280</u> | <u>4,824,238</u> | <u>81</u> |
| Nonoperating revenues (expenses): | | | | |
| Interest revenue | 613 | - | 613 | - |
| Interest and fiscal charges | (878,145) | (122,353) | (1,000,498) | - |
| Gain on sale of capital assets | 920 | 130 | 1,050 | - |
| Total nonoperating revenues (expenses) | <u>(876,612)</u> | <u>(122,223)</u> | <u>(998,835)</u> | <u>-</u> |
| Income before contributions and special item | 72,346 | 3,753,057 | 3,825,403 | 81 |
| Special item: Litigation settlement | 1,500,157 | - | 1,500,157 | - |
| Capital contributions | 1,284,126 | - | 1,284,126 | - |
| Change in net position | <u>2,856,629</u> | <u>3,753,057</u> | <u>6,609,686</u> | <u>81</u> |
| Net position at beginning of year | <u>42,210,310</u> | <u>21,343,224</u> | | <u>13,881</u> |
| Net position at end of year | <u>\$ 45,066,939</u> | <u>\$ 25,096,281</u> | | <u>\$ 13,962</u> |
| Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds | | | 53 | |
| Change in net position of business-type activities. | | | <u>\$ 6,609,739</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, 2013

| | <u>Business-type Activities - Enterprise Funds</u> | | | Governmental Activities - Internal Service Funds |
|--|--|----------------------|----------------------|---|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> | |
| Cash flows from operating activities: | | | | |
| Cash received from charges for services | \$ 5,829,203 | \$ 7,795,899 | \$ 13,625,102 | \$ 75,675 |
| Cash received from tap-in fees | 12,338 | - | 12,338 | - |
| Cash received from other operations | 129,386 | 8,574 | 137,960 | - |
| Cash payments for personal services | (1,598,933) | (2,039,414) | (3,638,347) | (61,959) |
| Cash payments for contractual services | (664,130) | (500,674) | (1,164,804) | (3,857) |
| Cash payments for materials and supplies. | (688,286) | (363,988) | (1,052,274) | (1,258) |
| Cash payments for utilities expense. | (346,998) | (480,858) | (827,856) | (6,988) |
| Cash payments for other expenses | (102,538) | (81,357) | (183,895) | (1,487) |
| Net cash provided by operating activities | <u>2,570,042</u> | <u>4,338,182</u> | <u>6,908,224</u> | <u>126</u> |
| Cash flows from noncapital financing activities: | | | | |
| Cash received from special item: litigation settlement | <u>1,500,157</u> | <u>-</u> | <u>1,500,157</u> | <u>-</u> |
| Net cash provided by noncapital financing activities. | <u>1,500,157</u> | <u>-</u> | <u>1,500,157</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | | | |
| Cash payments for the acquisition of capital assets. | (10,502,148) | (6,301,417) | (16,803,565) | - |
| Cash received from the sale of capital assets | 920 | 130 | 1,050 | - |
| Cash received from capital contributions. | 1,279,551 | - | 1,279,551 | - |
| Cash payments for principal retirement. | (1,443,023) | (138,814) | (1,581,837) | - |
| Cash payments for interest and fiscal charges | (912,748) | (122,353) | (1,035,101) | - |
| Cash received from OWDA loan issuance. | <u>7,808,698</u> | <u>4,825,010</u> | <u>12,633,708</u> | <u>-</u> |
| Net cash used in capital and related financing activities. | <u>(3,768,750)</u> | <u>(1,737,444)</u> | <u>(5,506,194)</u> | <u>-</u> |
| Cash flows from investing activities: | | | | |
| Cash received from interest earned. | <u>613</u> | <u>-</u> | <u>613</u> | <u>-</u> |
| Net cash provided by investing activities | <u>613</u> | <u>-</u> | <u>613</u> | <u>-</u> |
| Net increase in cash and cash equivalents. | 302,062 | 2,600,738 | 2,902,800 | 126 |
| Cash and cash equivalents at beginning of year | 4,600,961 | 11,701,743 | 16,302,704 | 17,789 |
| Cash and cash equivalents at end of year | <u>\$ 4,903,023</u> | <u>\$ 14,302,481</u> | <u>\$ 19,205,504</u> | <u>\$ 17,915</u> |

- - Continued

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013

| | <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 to net cash provided by operating activities: | | | | |
| Operating income | \$ 948,958 | \$ 3,875,280 | \$ 4,824,238 | \$ 81 |
| Adjustments: | | | | |
| Depreciation | 1,807,286 | 455,934 | 2,263,220 | - |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in materials and supplies inventory | (11,848) | 7,502 | (4,346) | - |
| (Increase) decrease in accounts receivable | (171,436) | 144,900 | (26,536) | - |
| (Increase) in intergovernmental receivable | - | (36,445) | (36,445) | - |
| Increase (decrease) in accounts payable | 18,624 | (14,122) | 4,502 | (43) |
| (Decrease) in contracts payable | (2,334) | (88,318) | (90,652) | - |
| Increase (decrease) in accrued wages and benefits | (3,428) | 3,333 | (95) | 63 |
| Increase (decrease) in compensated absences payable | 5,054 | (9,635) | (4,581) | - |
| (Decrease) in intergovernmental payable | (27,691) | (1,028) | (28,719) | - |
| Increase in refundable deposits liability | 6,725 | - | 6,725 | - |
| Increase in pension obligation payable | 132 | 781 | 913 | 25 |
| Net cash provided by operating activities | <u>\$ 2,570,042</u> | <u>\$ 4,338,182</u> | <u>\$ 6,908,224</u> | <u>\$ 126</u> |

During 2013, the water fund received \$4,575 in capital contributions from other funds.
 During 2013, the water fund received \$31,434 in trade in toward a new asset.
 During 2013, the sewer fund purchased \$863,991 in capital assets on account.
 During 2013, the sewer fund received \$47,860 in trade in toward a new asset.
 During 2012, the water fund recorded \$9,733,682 in contracts payable. This amount is included in acquisition of capital assets.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2013

| | Agency |
|---|---------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 54,316 |
| Cash in segregated accounts. | 3,160 |
| Receivables: | |
| Accounts | 2,643 |
| Total assets | \$ 60,119 |
| Liabilities: | |
| Due to other governments | \$ 5,535 |
| Deposits held and due to others | 54,584 |
| Total liabilities | \$ 60,119 |

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, 2013**

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” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”.

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, 2013
(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, 2013
(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, 2013
(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 before it can be recognized.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income 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, 2013, but which were levied to finance year 2014 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, 2013, 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 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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

official certificate of estimated resources issued during 2013.

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 2013.

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 2013, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), Federal Home Loan Banks (FHLB) 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, 2013.

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 2013 was \$83,241, which includes \$68,176 assigned from other City funds.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

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

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

H. Loans Receivable

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

I. Inventories of Materials and Supplies

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

On fund financial statements, reported material and supplies inventory is equally offset by a 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 2013.

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, 2013
(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, 2013
(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.

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.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

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

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, 2013 are comprised of the following:

| | <u>Cash and Cash Equivalents</u> |
|-------------------|--------------------------------------|
| Customer deposits | \$ <u>77,525</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 Premium and Discount/Accounting Gain or Loss

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.

Q. Estimates

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

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

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 2013, the water enterprise fund received \$1,284,126 in capital contributions.

S. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment 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.

During fiscal year 2013, the City had a special item for a litigation settlement with Arcadis U.S., Inc. regarding the design and construction of the City of Fremont Reservoir Project. The City reported \$1,500,157 in the statement of activities. There were no extraordinary items during fiscal year 2013.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2013, the City has implemented GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*" and GASB Statement No. 66, "*Technical Corrections-2012*".

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the City.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 66 improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements; GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements". The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the City.

B. Deficit Fund Balances

Fund balances at December 31, 2013 included the following individual fund deficits:

| <u>Nonmajor governmental fund</u> | <u>Deficit</u> |
|-----------------------------------|----------------|
| CCA Grant | \$ 3,989 |

The general fund is liable for the deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance 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;
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;

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 \$77,525 in restricted assets for refundable deposits from customers of the water fund. This amount is included in the "deposits with financial institutions" below.

A. Cash in Segregated Accounts

At year end, \$3,160 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".

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

As of December 31, 2013, the carrying amount of all City deposits was \$26,994,253. At December 31, 2013, \$5,529,814 of the City's bank balance of \$27,176,830 was covered by the Federal Deposit Insurance Corporation and \$21,647,016 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, 2013, 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 |
| STAR Ohio | \$ 410,149 | \$ 410,149 | \$ - | \$ - | \$ - |
| FFCB | 1,000,025 | - | - | - | 1,000,025 |
| FHLB | 1,150,069 | - | - | - | 1,150,069 |
| Total | \$ 2,560,243 | \$ 410,149 | \$ - | \$ - | \$ 2,150,094 |

The weighted average maturity of investments is 1.45 years.

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

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2013:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------|---------------------|-------------------|
| STAR Ohio | \$ 410,149 | 16.02 |
| FFCB | 1,000,025 | 39.06 |
| FHLB | <u>1,150,069</u> | <u>44.92</u> |
| Total | <u>\$ 2,560,243</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, 2013:

| <u>Cash and investments per note disclosure</u> | |
|---|----------------------|
| Carrying amount of deposits | \$ 26,991,093 |
| Investments | 2,560,243 |
| Cash in segregated accounts | <u>3,160</u> |
| Total | <u>\$ 29,554,496</u> |

| <u>Cash and investments per statement of net position</u> | |
|---|----------------------|
| Governmental activities | \$ 10,291,516 |
| Business type activities | 19,205,504 |
| Agency funds | <u>57,476</u> |
| Total | <u>\$ 29,554,496</u> |

NOTE 5 - INTERFUND TRANSFERS

- A.** Interfund transfers for the year ended December 31, 2013 consisted of the following, as reported in the fund financial statements:

| <u>Transfers from general fund to:</u> | |
|--|-------------------|
| Nonmajor governmental funds | <u>\$ 776,000</u> |

- B.** Interfund balances at December 31, 2013 consisted of the following amounts due from and to other funds as reported on the fund financial statements:

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u> |
|------------------------|----------------------------|-----------------|
| General | Nonmajor governmental fund | <u>\$ 1,271</u> |

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 5 - INTERFUND TRANSFERS - (Continued)

C. Advances to/from other funds for the year ended December 31, 2013 consisted of the following, as reported on the fund statements:

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u> |
|------------------------|----------------------------|-------------------|
| General | Nonmajor governmental fund | <u>\$ 550,000</u> |
| | | |

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. 2013 public utility property taxes became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 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, 2013 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 2013 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

The full tax rate for all City operations for the year ended December 31, 2013 was \$3.20 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2013 property tax receipts were based are as follows:

Real property

| | |
|-------------------------------|----------------|
| Residential/agricultural | \$ 143,509,000 |
| Commercial/industrial/mineral | 90,661,430 |

Public utility

| | |
|----------------------|----------------|
| Real | 92,520 |
| Personal | 12,078,560 |
| | <hr/> |
| Total assessed value | \$ 246,341,510 |
| | <hr/> <hr/> |

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 \$7,922,163 in 2013.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2013 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, 2013.

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 8 - RECEIVABLES - (Continued)

| <u>Receivables:</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|--------------------------------|------------------------------------|-------------------------------------|
| Income taxes | \$ 2,715,557 | \$ - |
| Property and other local taxes | 850,480 | - |
| Accounts | 37,375 | 2,066,389 |
| Loans | 312,906 | - |
| Accrued interest | 9,593 | - |
| Due from other governments | <u>639,980</u> | <u>36,445</u> |
| Total | <u>\$ 4,565,891</u> | <u>\$ 2,102,834</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 2013, there were loans to four businesses with a total principal balance of \$312,906. \$19,327 is the amount due within one year and \$293,579 is due in more than one year.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

| <u>Governmental activities:</u> | <u>Balance</u> <u>12/31/12</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12/31/13</u> |
|--|-----------------------------------|---------------------|-----------------------|-----------------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 809,559 | \$ - | \$ - | \$ 809,559 |
| Construction-in-progress | <u>502,580</u> | <u>1,920,546</u> | <u>(1,307,118)</u> | <u>1,116,008</u> |
| <i>Total capital assets, not being depreciated</i> | <u>1,312,139</u> | <u>1,920,546</u> | <u>(1,307,118)</u> | <u>1,925,567</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 4,594,237 | - | - | 4,594,237 |
| Buildings and improvements | 12,570,990 | 59,083 | - | 12,630,073 |
| Machinery and equipment | 5,475,279 | 110,709 | (85,612) | 5,500,376 |
| Infrastructure | <u>17,264,989</u> | <u>1,541,610</u> | <u>-</u> | <u>18,806,599</u> |
| <i>Total capital assets, being depreciated</i> | <u>39,905,495</u> | <u>1,711,402</u> | <u>(85,612)</u> | <u>41,531,285</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (1,804,105) | (203,129) | - | (2,007,234) |
| Buildings and improvements | (5,203,979) | (361,757) | - | (5,565,736) |
| Machinery and equipment | (3,633,423) | (333,254) | 81,399 | (3,885,278) |
| Infrastructure | <u>(9,368,320)</u> | <u>(681,698)</u> | <u>-</u> | <u>(10,050,018)</u> |
| <i>Total accumulated depreciation</i> | <u>(20,009,827)</u> | <u>(1,579,838)</u> | <u>81,399</u> | <u>(21,508,266)</u> |
| Total capital assets, being depreciated, net | <u>19,895,668</u> | <u>131,564</u> | <u>(4,213)</u> | <u>20,023,019</u> |
| Total capital assets, net | <u>\$ 21,207,807</u> | <u>\$ 2,052,110</u> | <u>\$ (1,311,331)</u> | <u>\$ 21,948,586</u> |

Total current year depreciation includes \$16,427 of accumulated depreciation from a transferred asset.

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

| | |
|--|---------------------|
| <u>Governmental activities:</u> | |
| General government | \$ 60,442 |
| Security of persons and property | 221,245 |
| Transportation | 806,566 |
| Leisure time activities | 453,731 |
| Economic development | <u>21,427</u> |
| Total depreciation expense | <u>\$ 1,563,411</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 10 - CAPITAL ASSETS - (Continued)

| <u>Business-type activities:</u> | <u>Balance</u> <u>12/31/12</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>12/31/13</u> |
|--|-----------------------------------|----------------------|-----------------------|-----------------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 903,988 | \$ - | \$ - | \$ 903,988 |
| Construction-in-progress | <u>45,832,094</u> | <u>7,804,401</u> | <u>(44,107,394)</u> | <u>9,529,101</u> |
| <i>Total capital assets, not being depreciated</i> | <u>46,736,082</u> | <u>7,804,401</u> | <u>(44,107,394)</u> | <u>10,433,089</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 1,606,290 | 37,305,266 | - | 38,911,556 |
| Buildings and improvements | 35,621,095 | 4,256,346 | (99,302) | 39,778,139 |
| Machinery and equipment | 7,891,242 | 180,123 | (151,785) | 7,919,580 |
| Infrastructure | <u>23,374,312</u> | <u>2,579,001</u> | <u>-</u> | <u>25,953,313</u> |
| <i>Total capital assets, being depreciated</i> | <u>68,492,939</u> | <u>44,320,736</u> | <u>(251,087)</u> | <u>112,562,588</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (410,533) | (419,758) | - | (830,291) |
| Buildings and improvements | (16,009,162) | (995,795) | 99,302 | (16,905,655) |
| Machinery and equipment | (5,864,309) | (360,402) | 72,491 | (6,152,220) |
| Infrastructure | <u>(7,815,914)</u> | <u>(487,265)</u> | <u>-</u> | <u>(8,303,179)</u> |
| <i>Total accumulated depreciation</i> | <u>(30,099,918)</u> | <u>(2,263,220)</u> | <u>171,793</u> | <u>(32,191,345)</u> |
| Total capital assets, being depreciated, net | <u>38,393,021</u> | <u>42,057,516</u> | <u>(79,294)</u> | <u>80,371,243</u> |
| Total capital assets, net | <u>\$ 85,129,103</u> | <u>\$ 49,861,917</u> | <u>\$(44,186,688)</u> | <u>\$ 90,804,332</u> |

Construction in progress represents costs in and out of the water and sewer funds relating to the OEPA Long Term Plan, Commerce Drive 24" waterline, and the sludge facility, as of December 31, 2013.

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

| <u>Business-type activities:</u> | <u>Depreciation</u> <u>Expense</u> |
|---|---------------------------------------|
| Water fund | \$ 1,807,286 |
| Sewer fund | <u>455,934</u> |
| Total depreciation expense | <u>\$ 2,263,220</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS

A. Governmental activities

The City's governmental activities long-term obligations at December 31, 2013 were as follows:

| <u>Governmental activities:</u> | Balance | | | Balance | Amount Due |
|--|---------------------|------------------|---------------------|---------------------|-------------------|
| | 12/31/12 | Increases | Decreases | 12/31/13 | Within |
| | | | | | One Year |
| <u>General obligation bonds:</u> | | | | | |
| Community center | \$ 2,195,000 | \$ - | \$ (290,000) | \$ 1,905,000 | \$ 295,000 |
| Police and fire pension | 745,000 | - | (45,000) | 700,000 | 60,000 |
| Total general obligation bonds | <u>2,940,000</u> | <u>-</u> | <u>(335,000)</u> | <u>2,605,000</u> | <u>355,000</u> |
| <u>Other long-term obligations:</u> | | | | | |
| Compensated absences | 805,558 | 52,018 | (127,824) | 729,752 | 96,514 |
| Total | <u>3,745,558</u> | <u>52,018</u> | <u>(462,824)</u> | <u>3,334,752</u> | <u>451,514</u> |
| Unamortized premium on bonds | 64,533 | - | (9,433) | 55,100 | - |
| Total long-term obligations | <u>\$ 3,810,091</u> | <u>\$ 52,018</u> | <u>\$ (472,257)</u> | <u>\$ 3,389,852</u> | <u>\$ 451,514</u> |

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, 2013 is \$1,905,000; 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. 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, 2013
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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, 2013 were as follows:

| <u>Business-type activities:</u> | <u>Balance</u> | | | <u>Balance</u> | <u>Amount Due</u> |
|--|----------------------|----------------------|-------------------------------|----------------------|-------------------|
| | <u>12/31/12</u> | <u>Increases</u> | <u>Decreases</u> | <u>12/31/13</u> | <u>Within</u> |
| | | | | | <u>One Year</u> |
| <u>General obligation bonds</u> | | | | | |
| Water refunding series 2012 | \$ 6,900,000 | \$ - | \$ (575,000) | \$ 6,325,000 | \$ 600,000 |
| <u>OPWC loans</u> | | | | | |
| Sewer - series 2001 | 92,993 | - | (10,333) | 82,660 | 10,332 |
| Sewer - series 2004 | 111,150 | - | (8,892) | 102,258 | 8,892 |
| Total | <u>204,143</u> | <u>-</u> | <u>(19,225)</u> | <u>184,918</u> | <u>19,224</u> |
| <u>OWDA loans</u> | | | | | |
| WWTP high rate clarification design | 1,638,977 | 1,789,343 | (119,589) | 3,308,731 | - |
| Water pollution control center expansion | - | 3,035,667 | - | 3,035,667 | - |
| Water reservoir phase 1 | 5,633,000 | 2,568 | (217,622) | 5,417,946 | - |
| Water reservoir phase 2 | 1,600,685 | 27,500 | (75,208) | 1,552,977 | - |
| Off stream raw water - supply phase 2A | 862,158 | 8,927 | (60,904) | 810,181 | - |
| Water reservoir phase 1 - supplement | <u>12,465,227</u> | <u>7,769,703</u> | <u>(514,289)</u> | <u>19,720,641</u> | <u>-</u> |
| Total | <u>22,200,047</u> | <u>12,633,708</u> | <u>(987,612)</u> | <u>33,846,143</u> | <u>-</u> |
| <u>Other long-term obligations</u> | | | | | |
| Compensated absences | <u>358,419</u> | <u>35,820</u> | <u>(40,401)</u> | <u>353,838</u> | <u>50,920</u> |
| Total long-term obligations | <u>\$ 29,662,609</u> | <u>\$ 12,669,528</u> | <u>\$ (1,622,238)</u> | <u>40,709,899</u> | <u>\$ 670,144</u> |
| | | | Add: Unamortized bond premium | <u>370,753</u> | |
| | | | | <u>\$ 41,080,652</u> | |

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(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, 2013 is \$3,460,000, 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, 2013 is \$6,325,000. 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.

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

The City has entered into loans with the Ohio Water Development Authority for the construction of the Water Reservoir Phase 1, Water Reservoir Phase 2, Sewer Dam Removal Project and Water Pollution Control Center Expansion. The OWDA loans carry interest rates of 3.15% - 4.49% and mature between July 1, 2031 and July 1, 2046. Repayment of these loans will be funded through user charges.

As of December 31, 2013, 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 25.49 percent of net revenues and 13.11 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$33,846,143. Principal and interest paid for the current year were \$1,810,743, total net revenues were \$7,103,386 and total revenues were \$13,810,306.

- 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, 2013 are as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

| Year Ending December 31, | General Obligation Bonds - Community Center | | | Pension Liability - Police and Fire Pension | | |
|--------------------------------|--|-------------------|---------------------|--|------------------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 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 | 330,000 | 25,150 | 355,150 | 60,000 | 10,520 | 70,520 |
| 2019 - 2023 | 340,000 | 13,600 | 353,600 | 330,000 | 34,500 | 364,500 |
| 2024 | - | - | - | 70,000 | 1,890 | 71,890 |
| Total | <u>\$ 1,905,000</u> | <u>\$ 234,975</u> | <u>\$ 2,139,975</u> | <u>\$ 700,000</u> | <u>\$ 99,910</u> | <u>\$ 799,910</u> |

| Year Ending December 31, | General Obligation Bonds - Water Series 2012 | | |
|--------------------------------|---|-------------------|---------------------|
| | Principal | Interest | Total |
| 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 | 610,000 | 97,700 | 707,700 |
| 2019 - 2023 | 3,190,000 | 240,800 | 3,430,800 |
| 2024 | 475,000 | 9,500 | 484,500 |
| Total | <u>\$ 6,325,000</u> | <u>\$ 931,000</u> | <u>\$ 7,256,000</u> |

| Year Ending December 31, | OPWC Loans - Sewer - Series 2001 | | | OPWC Loans - Sewer - Series 2004 | | |
|--------------------------------|-------------------------------------|-------------|------------------|-------------------------------------|-------------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 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 | 10,332 | - | 10,332 | 8,892 | - | 8,892 |
| 2019 - 2023 | 30,998 | - | 30,998 | 44,460 | - | 44,460 |
| 2024 - 2025 | - | - | - | 13,338 | - | 13,338 |
| Total | <u>\$ 82,660</u> | <u>\$ -</u> | <u>\$ 82,660</u> | <u>\$ 102,258</u> | <u>\$ -</u> | <u>\$ 102,258</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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, 2013, the City's total debt margin was \$24,170,724 and the unvoted debt margin was \$11,858,274.

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, 2013, the governmental activities liability for compensated absences was \$729,752, the business-type activities liability for compensated absences was \$353,838, and the City's total liability for compensated absences was \$1,083,590.

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 insurance for its members. American Risk Pooling Consultants, Inc. (ARPCO), is a division of York Insurance Services Group, Inc. (York), 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 13 - RISK MANAGEMENT - (Continued)

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, 2013, PEP retained \$350,000 for casualty claims and \$100,000 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 2013:

| <u>Casualty & Property Coverage</u> | <u>2012</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Assets | \$34,389,569 | \$34,411,883 |
| Liabilities | (14,208,353) | (12,760,194) |
| Net Position | <u>\$20,181,216</u> | <u>\$21,651,689</u> |

At December 31, 2012 and 2013, respectively, the liabilities above include approximately \$13.1 million and \$11.6 million of estimated incurred claims payable. The assets above also include approximately \$12.6 and \$11.1 million of unpaid claims to be billed to approximately 475 member governments in the future, as of December 31, 2012 and 2013, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2013, the City's share of these unpaid claims collectible in future years is approximately \$151,000.

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 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> | |
|-----------------------------|-----------|
| 2012 | \$176,396 |
| 2013 | \$216,048 |

After one year of membership, members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of 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 the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

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, 277 East Town Street, 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 2013, member and contribution rates were consistent across all three plans. The 2013 member contribution rates were 10.00% for members. The City's contribution rate for 2013 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2013 was 13.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2013 was 13.00%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012, and 2011 were \$672,551, \$511,480, and \$502,887, respectively; 92.11% has been contributed for 2013 and 100% has been contributed for 2012 and 2011. The remaining 2013 pension liability has been reported as pension obligation payable on the basic financial statements. Contributions to the member-directed plan for 2013 were \$2,227 made by the City and \$1,591 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 14 - PENSION PLANS - (Continued)

Funding Policy - From January 1, 2013 through July 1, 2013, plan members were required to contribute 10.00% of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75% of their annual covered salary. Throughout 2013, the City was required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute.

For 2013, the portion of the City's contributions to fund pension obligations was 14.81% for January 1, 2013 through May 31, 2013 and 16.65% for June 1, 2013 through December 31, 2013 for police officers and 19.31% for January 1, 2013 through May 31, 2013 and 21.15% for June 1, 2013 through December 31, 2013 for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$287,288 and \$285,314 for the year ended December 31, 2013, \$248,290 and \$246,301 for the year ended December 31, 2012, and \$245,226 and \$239,539, for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 92.55% has been contributed for police and 92.33% has been contributed for firefighters for 2013. The remaining 2013 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, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2013, 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 2013 was 1.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2013 was 1.00%.

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, 2013, 2012, and 2011 were \$51,735, \$207,077, and \$203,258, respectively; 92.11% has been contributed for 2013 and 100% has been contributed for 2012 and 2011. The remaining 2013 post-employment health care benefits liability has been reported as pension obligation payable on the basic financial statements.

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.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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. The portion of employer contributions allocated to health care was 4.69% of covered payroll from January 1, 2013 through May 31, 2013 and 2.85% of covered payroll from June 1, 2013 through December 31, 2013. 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 \$65,692 and \$50,724 for the year ended December 31, 2013, \$131,447 and \$96,379 for the year ended December 31, 2012, and \$129,825 and \$93,733, for the year ended December 31, 2011. The full amount has been contributed for 2012 and 2011. 92.55% has been contributed for police and 92.33% has been contributed for firefighters for 2013. The remaining 2013 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:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

- (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) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) 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 | \$ 324,482 |
| Net adjustment for revenue accruals | (143,665) |
| Net adjustment for expenditure accruals | 358,027 |
| Net adjustment for other sources/uses | (7,959) |
| Funds budgeted elsewhere | 148,318 |
| Adjustment for encumbrances | 227,154 |
| GAAP basis | \$ 906,357 |

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 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 the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2013.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Continued)**

NOTE 17 – CONTINGENCIES – (Continued)

B. Litigation

The City is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations. The City management is of the opinion that the ultimate disposition of the claim and legal proceeding will not have a material adverse effect, if any, on the financial condition of the City. As of July 2014 the claim and legal proceeding had been resolved with no effect on the financial statements.

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:

| | Year-End |
|--------------------|---------------------|
| <u>Fund</u> | <u>Encumbrances</u> |
| General fund | \$ 188,204 |
| Other governmental | <u>2,104,731</u> |
| | |
| Total | <u>\$ 2,292,935</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, 2013
(Continued)**

NOTE 19 - FUND BALANCE – (Continued)

| Fund balance | General | Nonmajor Governmental Funds | Total Governmental Funds |
|------------------------------------|---------------------|-----------------------------------|--------------------------------|
| Nonspendable: | | | |
| Materials and supplies inventory | \$ - | \$ 88,260 | \$ 88,260 |
| Total nonspendable | <u>-</u> | <u>88,260</u> | <u>88,260</u> |
| Restricted: | | | |
| Debt service | - | 37,596 | 37,596 |
| Transporation projects | - | 968,705 | 968,705 |
| Police and fire pension | - | 763,302 | 763,302 |
| Revolving loans | - | 368,873 | 368,873 |
| R.L. Walsh trust | - | 719,202 | 719,202 |
| Other purposes | <u>-</u> | <u>688,620</u> | <u>688,620</u> |
| Total restricted | <u>-</u> | <u>3,546,298</u> | <u>3,546,298</u> |
| Committed: | | | |
| Capital projects | - | 1,048,929 | 1,048,929 |
| Recreation | - | 216,713 | 216,713 |
| Municipal income tax | <u>4,113,128</u> | <u>-</u> | <u>4,113,128</u> |
| Total committed | <u>4,113,128</u> | <u>1,265,642</u> | <u>5,378,770</u> |
| Assigned: | | | |
| General government | 34,898 | - | 34,898 |
| Securities of persons and property | 73,787 | - | 73,787 |
| Public health and welfare | 4,752 | - | 4,752 |
| Community environment | 293 | - | 293 |
| Leisure time activities | 49,643 | - | 49,643 |
| Economic environment | 1,567 | - | 1,567 |
| Recreation trust | 23,459 | - | 23,459 |
| Subsequent year appropriations | 137,934 | - | 137,934 |
| Debt service | <u>-</u> | <u>181,984</u> | <u>181,984</u> |
| Total assigned | <u>326,333</u> | <u>181,984</u> | <u>508,317</u> |
| Unassigned (deficit) | <u>1,713,235</u> | <u>(3,989)</u> | <u>1,709,246</u> |
| Total fund balances | <u>\$ 6,152,696</u> | <u>\$ 5,078,195</u> | <u>\$ 11,230,891</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2013**

| 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 | \$41,250 |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| <i>Passed through the Ohio Department of Development</i> | | | |
| Community Development Block Grants States Program | | | |
| Community Development Program | A-F-11-2BP-1 | 14.228 | 6,615 |
| Community Development Program | A-F-12-2BP-1 | 14.228 | 73,000 |
| Community Housing Improvement Program | A-C-11-2BP-1 | 14.228 | 73,948 |
| CDBG Revolving Loan Fund | | 14.228 | 93,169 |
| Total Community Development Block Grants | | | <u>246,732</u> |
| Home Investment Partnerships Program | A-C-11-2BP-2 | 14.239 | <u>245,675</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>492,407</u> |
| U.S. DEPARTMENT OF JUSTICE | | | |
| <i>Direct Assistance</i> | | | |
| Equitable Sharing Program | N/A | 16.922 | 601 |
| U.S. DEPARTMENT OF TRANSPORTATION | | | |
| <i>Passed through the Ohio Department of Transportation</i> | | | |
| Highway Planning and Construction | 87547 | 20.205 | 640,243 |
| U.S. ENVIRONMENTAL PROTECTION AGENCY | | | |
| <i>Direct Assistance</i> | | | |
| Congressionally Mandated Projects | XP-00E01399-0 | 66.202 | <u>294,804</u> |
| Total Federal Awards Expenditures | | | <u><u>\$1,469,305</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, 2013**

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 Development Services Agency. Loans repaid, including interest, are used to make additional loans. The Schedule reports loans made and administrative costs as disbursements on the Schedule. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans.

These loans are collateralized by mortgages on the property, business assets to include equipment, inventory and receivables, and personal assets. At December 31, the gross amounts of loans outstanding under this program were \$312,906.

Activity in the CDBG revolving loan fund during 2013 is as follows:

| | |
|---|-------------------------|
| Beginning loans receivable balance as of January 1, 2013 | \$319,073 |
| Loans made | 7,655 |
| Loan principal repaid | <u>(13,822)</u> |
| Ending loans receivable balance as of December 31, 2013 | <u><u>\$312,906</u></u> |
| | |
| Cash balance on hand in the revolving loan fund as of December 31, 2013 | \$62,370 |
| Administrative costs expended during 2013 | \$61 |

The table above reports gross loans receivable. Of the loans receivable as of December 31, 2013, \$21,818 is delinquent and a court judgment has been filed and \$2,125 are more than 240 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 issued audit report required 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 2013 of \$294,804 have been added to the Schedule. The adjustments do not have any effect on the basic financial statements.

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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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 18, 2014. In addition, 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.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2013-001 to be a significant deficiency.

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*.

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.

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

Dave Yost
Auditor of State

Columbus, Ohio

August 18, 2014, except for 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 the Major Federal Program

We have audited the City of Fremont, Sandusky County, Ohio's (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 the City of Fremont's major federal program for the year ended December 31, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the City's major federal program.

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 the City's major federal program 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 program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the 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 its major federal program for the year ended December 31, 2013.

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

August 18, 2014

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2013**

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)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | Yes |
| <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 #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 2013-001

Significant Deficiency

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:

- In the General Fund, unassigned fund balance of \$445,779 was improperly accounted for as committed fund balance.
- On the statement of net position, Unrestricted Net position of \$203,978 was improperly accounted for as Restricted for Recreation within Governmental Activities.
- On the statement of net position, restricted for R.L. Wash Trust of \$719,202 was improperly accounted for as unrestricted within Governmental Activities.

The accompanying financial statements have been adjusted to correct these errors. Additional unadjusted differences were noted in smaller relative amounts.

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:

We did not receive a response from Officials to this finding.

3. FINDINGS FOR FEDERAL AWARDS

None

CITY OF FREMONT
SANDUSKY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2013

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2012-001 | Material weakness in financial reporting due to errors in financial statements. | No | Partially Corrected. Repeated as finding #2013-001 in this report. |

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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**