



Dave Yost • Auditor of State

**CITY OF FREMONT
SANDUSKY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fremont, Sandusky County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fremont, Sandusky County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City of Fremont, Sandusky County, Ohio adopted Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The federal awards expenditures schedule provides additional information 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 basic financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

September 20, 2012

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
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, 2011. 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 2011 are as follows:

- The total net assets of the City increased \$3,400,874 or 3.89% from 2010. Net assets of governmental activities decreased \$1,705,352 or 5.09% from 2010 and net assets of business-type activities increased \$5,106,226 or 9.48% over 2010.
- General revenues accounted for \$9,362,785 or 73.88% of total governmental activities revenue. Program specific revenues accounted for \$3,309,398 or 26.12% of total governmental activities revenue.
- The City had \$13,704,426 in expenses related to governmental activities; \$3,309,398 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$10,395,028 were partially offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$9,362,785.
- The general fund had revenues of \$10,211,465 in 2011. This represents a decrease of \$78,936 or 0.77% from 2010. The expenditures of the general fund, which totaled \$8,765,078 in 2011, increased \$501,117 or 6.06% from 2010. The net decrease in fund balance for the general fund was \$777,358 or 11.39%.
- The capital improvement fund had revenues of \$926,426 in 2011. The expenditures of the capital improvement fund totaled \$2,196,193 in 2011. The capital improvement fund had transfers in from the general fund in the amount of \$734,745. The net decrease in fund balance for the capital improvement fund was \$535,022.
- Net assets for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2011 by \$5,106,226. This increase in net assets was due primarily to capital improvement received during the year.
- In the general fund, actual revenues and other financing sources were \$41,400 lower than the final budget revenues and other financing sources, and actual expenditures and other financing uses were \$274,598 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 \$679,077 from the original budget to the final budget, primarily due to an increase in security of persons and property 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
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(Continued)**

Governmental Funds

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

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and non-major funds. The City's major governmental funds are the general fund and capital improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation.

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

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

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets at December 31, 2011 and December 31, 2010. Net assets at December 31, 2010 have been restated as described in Note 3.B.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

	Net Assets					
	Governmental Activities		Business-type Activities		2011 Total	Restated 2010 Total
	2011	Restated 2010	2011	Restated 2010		
Assets						
Current and other assets	\$ 15,113,644	\$ 17,135,170	\$ 13,963,426	\$ 9,792,774	\$ 29,077,070	\$ 26,927,944
Capital assets, net	<u>22,296,153</u>	<u>22,326,120</u>	<u>68,835,530</u>	<u>55,317,481</u>	<u>91,131,683</u>	<u>77,643,601</u>
Total assets	<u>37,409,797</u>	<u>39,461,290</u>	<u>82,798,956</u>	<u>65,110,255</u>	<u>120,208,753</u>	<u>104,571,545</u>
Liabilities						
Long-term liabilities outstanding	3,988,558	4,298,582	23,005,080	10,515,589	26,993,638	14,814,171
Other liabilities	<u>1,596,128</u>	<u>1,632,245</u>	<u>851,848</u>	<u>758,864</u>	<u>2,447,976</u>	<u>2,391,109</u>
Total liabilities	<u>5,584,686</u>	<u>5,930,827</u>	<u>23,856,928</u>	<u>11,274,453</u>	<u>29,441,614</u>	<u>17,205,280</u>
Net Assets						
Invested in capital assets, net of related debt	19,948,353	19,598,099	46,497,083	45,174,955	66,445,436	64,773,054
Restricted	7,214,946	4,355,831			7,214,946	4,355,831
Unrestricted	<u>4,661,812</u>	<u>9,576,533</u>	<u>12,444,945</u>	<u>8,660,847</u>	<u>17,106,757</u>	<u>18,237,380</u>
Total net assets	<u>\$ 31,825,111</u>	<u>\$ 33,530,463</u>	<u>\$ 58,942,028</u>	<u>\$ 53,835,802</u>	<u>\$ 90,767,139</u>	<u>\$ 87,366,265</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$90,767,139. At year-end, net assets were \$31,825,111 and \$58,942,028 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 75.81% of total assets. Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2011, were \$19,948,353 and \$46,497,083 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, 2011, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$7,214,946 represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$4,661,812 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal years 2011 and 2010. Net assets at December 31, 2010 have been restated as described in Note 3.B.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

	Change in Net Assets					
	Governmental Activities 2011	Governmental Activities 2010	Business-type Activities 2011	Business-type Activities 2010	2011 Total	2010 Total
	Revenues					
Program revenues:						
Charges for services	\$ 1,028,013	\$ 928,668	\$ 10,992,385	\$ 10,261,895	\$ 12,020,398	\$ 11,190,563
Operating grants and contributions	1,187,120	1,156,043			1,187,120	1,156,043
Capital grants and contributions	<u>1,094,265</u>	<u>346,766</u>	<u>2,464,462</u>	<u>4,696,138</u>	<u>3,558,727</u>	<u>5,042,904</u>
Total program revenues	<u>3,309,398</u>	<u>2,431,477</u>	<u>13,456,847</u>	<u>14,958,033</u>	<u>16,766,245</u>	<u>17,389,510</u>
General revenues:						
Property taxes	997,392	1,091,673			997,392	1,091,673
Income taxes	7,073,674	8,077,038			7,073,674	8,077,038
Unrestricted grants and entitlements	949,469	1,169,334			949,469	1,169,334
Investment earnings	100,801	102,822	1,076	1,208	101,877	104,030
Miscellaneous	<u>241,449</u>	<u>202,028</u>	<u>60,147</u>	<u>9,907</u>	<u>301,596</u>	<u>211,935</u>
Total general revenues	<u>9,362,785</u>	<u>10,642,895</u>	<u>61,223</u>	<u>11,115</u>	<u>9,424,008</u>	<u>10,654,010</u>
Total revenues	<u>12,672,183</u>	<u>13,074,372</u>	<u>13,518,070</u>	<u>14,969,148</u>	<u>26,190,253</u>	<u>28,043,520</u>
Expenses:						
General government	2,308,102	2,547,877			2,308,102	2,547,877
Security of persons and property	6,799,182	6,158,835			6,799,182	6,158,835
Public health and welfare	4,302	17,034			4,302	17,034
Transportation	1,816,371	1,745,870			1,816,371	1,745,870
Community environment	507,123	442,516			507,123	442,516
Leisure time activity	2,041,218	1,922,529			2,041,218	1,922,529
Economic development	93,681	144,373			93,681	144,373
Contract services	6,108				6,108	
Interest and fiscal charges	128,339	142,802			128,339	142,802
Water			5,504,421	5,341,092	5,504,421	5,341,092
Sewer			<u>3,580,532</u>	<u>3,639,516</u>	<u>3,580,532</u>	<u>3,639,516</u>
Total expenses	<u>13,704,426</u>	<u>13,121,836</u>	<u>9,084,953</u>	<u>8,980,608</u>	<u>22,789,379</u>	<u>22,102,444</u>
Increase (decrease) in net assets before transfers	(1,032,243)	(47,464)	4,433,117	5,988,540	3,400,874	5,941,076
Transfers	<u>(673,109)</u>	<u>(261,696)</u>	<u>673,109</u>	<u>261,696</u>		
Increase (decrease) in net assets	(1,705,352)	(309,160)	5,106,226	6,250,236	3,400,874	5,941,076
Net assets at beginning of year (restated)	<u>33,530,463</u>	<u>33,839,623</u>	<u>53,835,802</u>	<u>47,585,566</u>	<u>87,366,265</u>	<u>81,425,189</u>
Net assets at end of year	<u>\$ 31,825,111</u>	<u>\$ 33,530,463</u>	<u>\$ 58,942,028</u>	<u>\$ 53,835,802</u>	<u>\$ 90,767,139</u>	<u>\$ 87,366,265</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Governmental Activities

Governmental activities net assets decreased \$1,705,352 in 2011. This decrease is a result of increased expenses and less income tax revenue.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$6,799,182 of the total expenses of the City. These expenses were partially funded by \$67,063 in direct charges to users of the services. General government expenses totaled \$2,308,102. General government expenses were partially funded by \$484,546 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$1,187,120 in operating grants and contributions and \$1,094,265 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$254,570 subsidized transportation programs and \$839,695 subsidized community environment programs. Of the total operating grants and contributions, \$743,429 subsidized transportation programs, and \$6,365 subsidized security of persons and property activities.

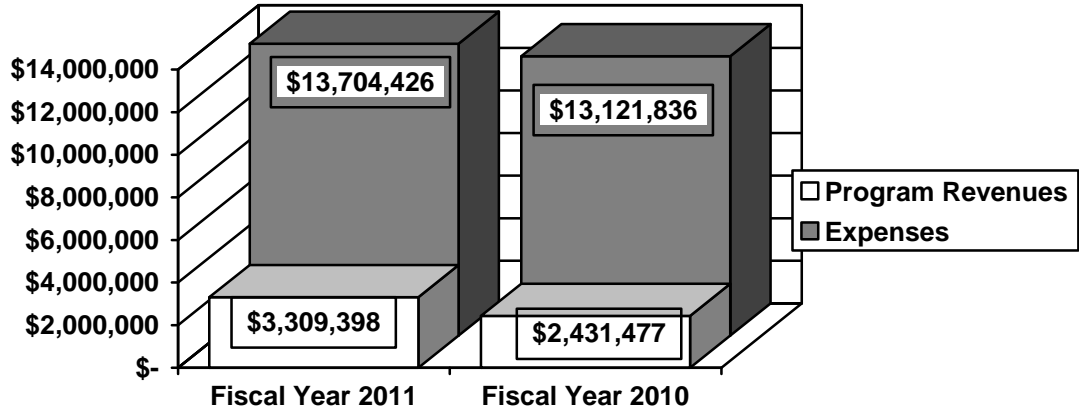
General revenues totaled \$9,362,785, and amounted to 73.88% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$8,071,066. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue making up \$949,469.

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

**CITY OF FREMONT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Governmental Activities – Program Revenues vs. Total Expenses



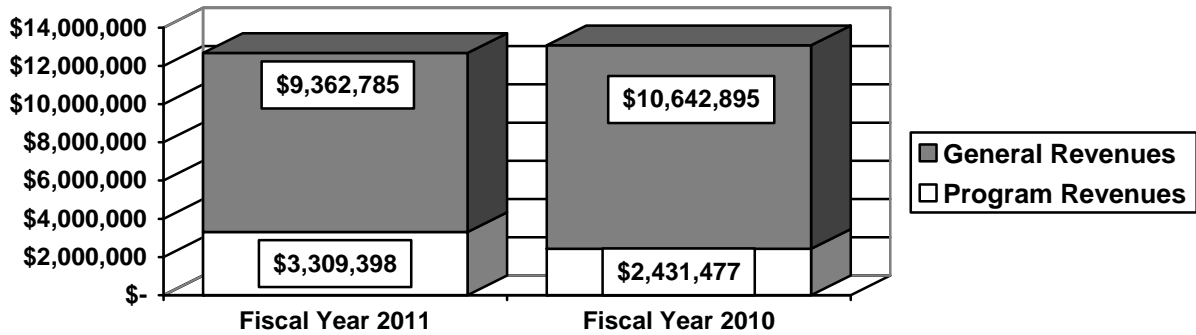
	Governmental Activities			
	<u>Total Cost of Services 2011</u>	<u>Net Cost of Services 2011</u>	<u>Total Cost of Services 2010</u>	<u>Net Cost of Services 2010</u>
Program Expenses:				
General government	\$ 2,308,102	\$ 1,818,709	\$ 2,547,877	\$ 2,152,332
Security of persons and property	6,799,182	6,725,754	6,158,835	6,084,166
Public health and welfare	4,302	4,302	17,034	17,034
Transportation	1,816,371	761,289	1,745,870	534,424
Community environment	507,123	(715,116)	442,516	131,074
Leisure time activity	2,041,218	1,585,676	1,922,529	1,484,354
Economic development	93,681	85,912	144,373	144,173
Contract services	6,108	163		
Interest and fiscal charges	<u>128,339</u>	<u>128,339</u>	<u>142,802</u>	<u>142,802</u>
Total	<u>\$ 13,704,426</u>	<u>\$ 10,395,028</u>	<u>\$ 13,121,836</u>	<u>\$ 10,690,359</u>

The dependence upon general revenues for governmental activities is apparent, with 75.85% of expenses supported through taxes and other general revenues.

**CITY OF FREMONT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Governmental Activities – General and Program Revenues

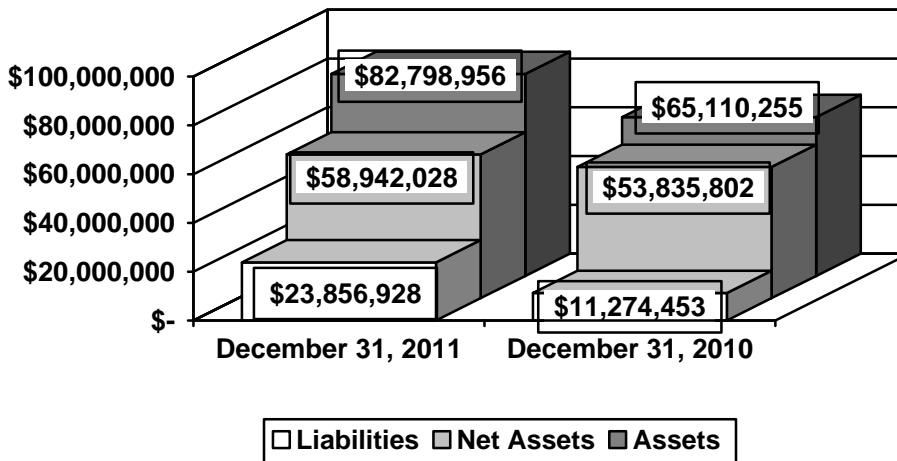


Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$13,456,847, general revenues of \$61,223, transfers in of \$673,109 and expenses of \$9,084,953 for 2011.

The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and

**CITY OF FREMONT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
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balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds reported a combined fund balance of \$11,045,731 which is \$1,241,040 below last year's total of \$12,286,771. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 for all major and nonmajor governmental funds. Fund cash balances at December 31, 2010 have been restated as described in Note 3.B.

	Fund Balances <u>12/31/11</u>	Restated Fund Balances <u>12/31/10</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 6,044,891	\$ 6,822,249	\$ (777,358)
Capital grants	894,502	1,429,524	(535,022)
Other nonmajor governmental funds	<u>4,106,338</u>	<u>4,034,998</u>	<u>71,340</u>
 Total	 <u>\$ 11,045,731</u>	 <u>\$ 12,286,771</u>	 <u>\$ (1,241,040)</u>

General Fund

The City's general fund balance decreased \$777,358, primarily due to an increase in security of persons and property expenditures. The table that follows assists in illustrating the revenues of the general fund.

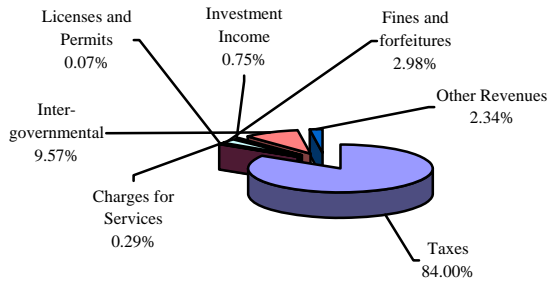
	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,577,181	\$ 8,603,719	(0.31) %
Charges for services	29,388	18,985	54.80 %
Licenses and permits	6,638	8,152	(18.57) %
Fines and forfeitures	304,720	233,971	30.24 %
Intergovernmental	977,728	1,213,885	(19.45) %
Investment income	76,926	87,874	(12.46) %
Other	<u>238,884</u>	<u>123,815</u>	92.94 %
 Total	 <u>\$ 10,211,465</u>	 <u>\$10,290,401</u>	 (0.77) %

Tax revenue represents 84.00% of all general fund revenue. Tax revenue decreased by 0.31% from the prior year. The decrease in taxes revenue is due to the continued phase out of tangible personal property tax. The decrease in investment income is due to lower interest rates on the City's investment portfolio. Intergovernmental revenues decreased 19.45% due to the City receiving less inheritance tax. The increase in fines and forfeitures is due to an increase of court fines and fees. All other revenue remained comparable to 2010.

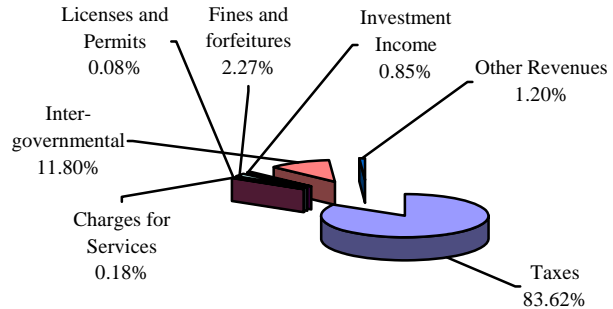
**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Revenues – Fiscal Year 2011



Revenues – Fiscal Year 2010



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

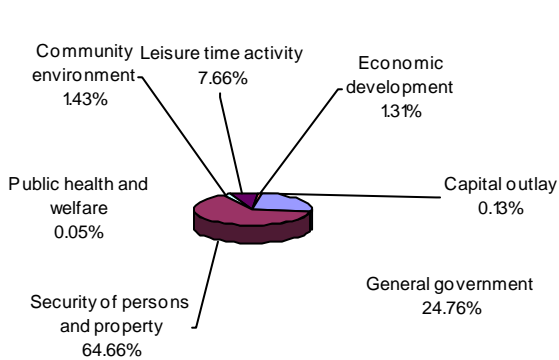
Expenditures	<u>2011 Amount</u>	<u>Restated 2010 Amount</u>	<u>Percentage Change</u>
General government	\$ 2,170,122	\$ 2,349,549	(7.64) %
Security of persons and property	5,667,847	5,008,203	13.17 %
Public health and welfare	4,246	16,305	(73.96) %
Community environment	125,413	122,554	2.33 %
Leisure time activity	671,287	615,718	9.03 %
Economic development	114,745	109,255	5.02 %
Capital outlay	<u>11,418</u>	<u>42,377</u>	(73.06) %
Total	<u>\$ 8,765,078</u>	<u>\$ 8,263,961</u>	6.06 %

The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services. All other expenditures remained comparable to 2011.

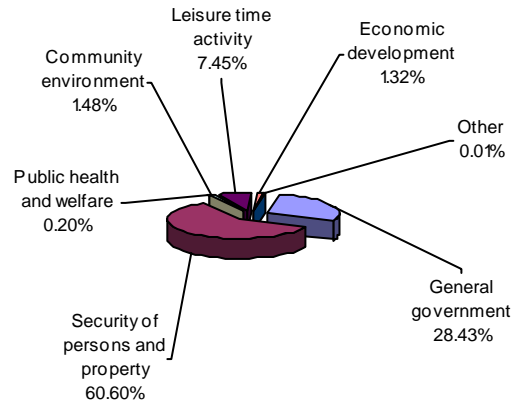
**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Expenditures – Fiscal Year 2011



Expenditures – Fiscal Year 2010



Capital Improvement Fund

The capital improvement fund had revenues of \$926,426 in 2011. The expenditures of the capital improvement fund totaled \$2,196,193 in 2011. The capital improvement fund had transfers in from other funds in the amount of \$734,745. The net decrease in fund balance for the capital improvement fund was \$535,022.

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 \$679,077 from \$8,570,451 to \$9,249,528. Actual revenues and other financing sources of \$8,710,032 were less than final budgeted revenues and other financing sources by \$41,400. 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 \$274,598 lower than the final budgeted amounts.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

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 2011, the City had \$91,131,683 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress (CIP). Of this total, \$22,296,153 was reported in governmental activities and \$68,835,530 was reported in business-type activities. See Note 10 for further description of capital assets. The following table shows fiscal 2011 balances compared to 2010:

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

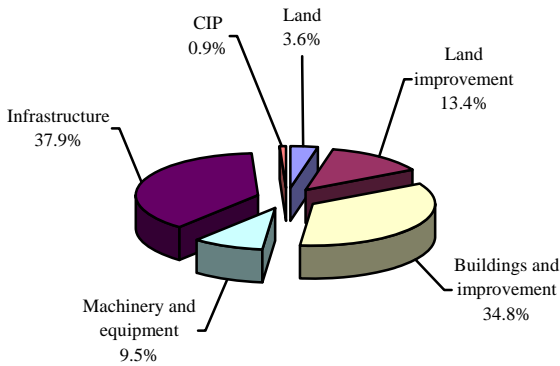
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 809,559	\$ 803,959	\$ 903,988	\$ 903,988	\$ 1,713,547	\$ 1,707,947
Land improvements	2,986,423	3,189,393	1,239,622	1,285,951	4,226,045	4,475,344
Buildings and improvements	7,732,289	8,029,518	20,787,030	21,794,783	28,519,319	29,824,301
Machinery and equipment	2,127,457	1,637,519	2,337,278	2,631,292	4,464,735	4,268,811
Infrastructure	8,446,923	8,599,087	15,986,289	15,868,370	24,433,212	24,467,457
Construction in progress	<u>193,502</u>	<u>66,644</u>	<u>27,581,323</u>	<u>12,833,097</u>	<u>27,774,825</u>	<u>12,899,741</u>
Totals	<u>\$ 22,296,153</u>	<u>\$ 22,326,120</u>	<u>\$ 68,835,530</u>	<u>\$ 55,317,481</u>	<u>\$ 91,131,683</u>	<u>\$ 77,643,601</u>

The following graphs show the breakdown of governmental capital assets by category for 2011 and 2010.

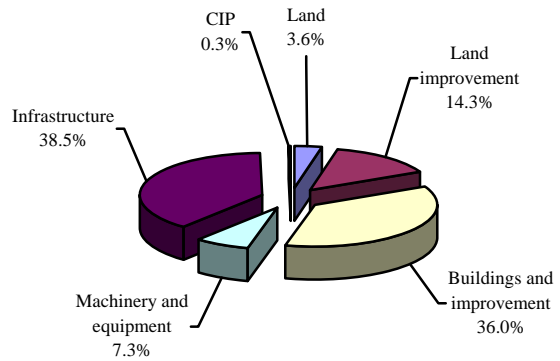
**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

**Capital Assets - Governmental
Activities 2011**



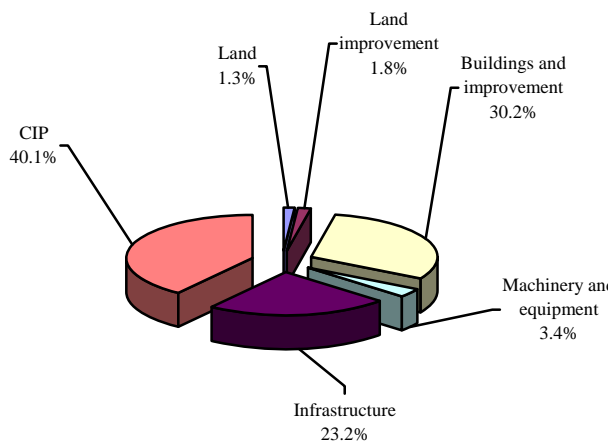
**Capital Assets - Governmental
Activities 2010**



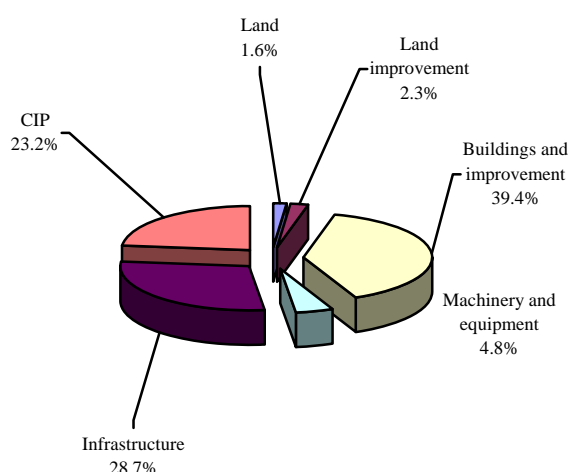
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 37.9% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2011 and 2010.

**Capital Assets - Business-Type
Activities 2011**



**Capital Assets - Business-Type
Activities 2010**



The City's second largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 23.2% of the City's total business-type capital assets.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

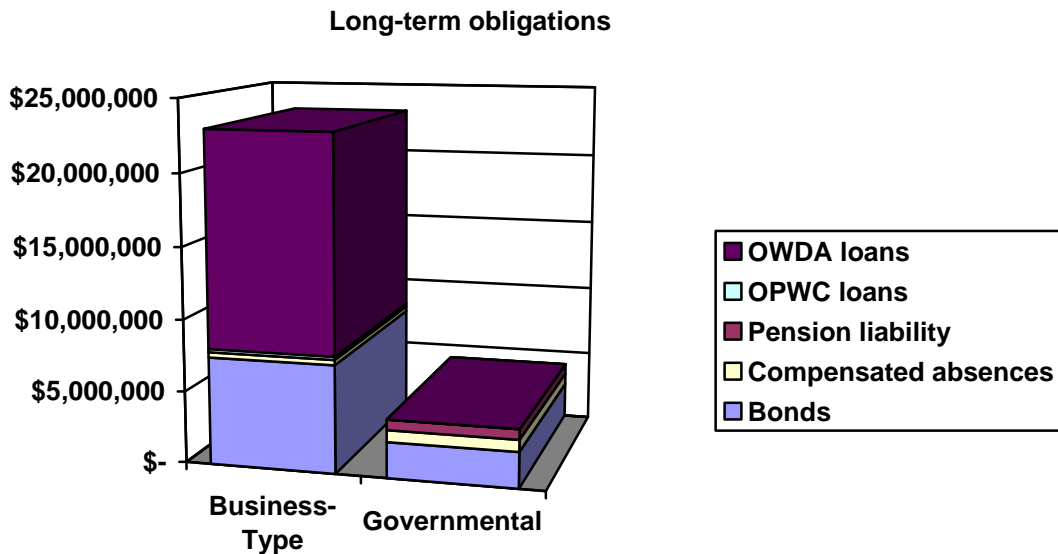
Debt Administration

See Note 11 for further discussion of the City's long-term obligations. The City had the following long-term obligations outstanding at December 31, 2011 and 2010:

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Compensated absences	\$ 817,460	\$ 829,024
General obligation bonds	2,480,000	2,765,000
Pension liability	<u>723,810</u>	<u>741,537</u>
 Total long-term obligations	 <u>\$ 4,021,270</u>	 <u>\$ 4,335,561</u>

	Business-type Activities	
	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 7,490,000	\$ 7,925,000
OPWC loans	223,367	242,592
OWDA loans	14,929,652	1,974,934
Compensated absences	<u>362,061</u>	<u>373,063</u>
 Total long-term obligations	 <u>\$ 23,005,080</u>	 <u>\$ 10,515,589</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, 2011
UNAUDITED
(Continued)**

Economic Conditions and Outlook

During 2011, the City of Fremont's economic development office was very active in marketing efforts, legislative activities and business lead generation with the Sandusky County Economic Development Corporation (SCEDC), Northwest Ohio Regional Economic Development Association (NORED), Regional Growth Partnership (RGP) and JobsOhio. Fremont's economic development director is on the board of trustees for SCEDC and NORED previously holding officer positions and chairing various committees on both boards. Regional economic development continues to be a successful effort in Northwest Ohio. Collaborating and sharing of resources increases the quality of service for business and industry and results in more development projects.

The City of Fremont took an active role in writing the Economic Development section of The Sandusky County Comprehensive Plan 2003. The plan was reviewed in 2011 and although many of the strategies in that plan continue to be used today, discussions began on renewing the plan within the next 12-18 months.

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

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

Unemployment rates averaged below double digits in 2011. Economists are predicting a national recession recovery that will not see large employment gains. Investment in new machinery and equipment will be the biggest contributing factor to the recovery. Fremont's business community will most likely follow suit.

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

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

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

Workforce development is a challenge for many employers as skilled employees are becoming more difficult to find. Terra Community College, the Sandusky County Job Store, Sandusky County Economic

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Development Corporation and the City of Fremont will work with local businesses throughout 2012 to identify training needs. JobsOhio will be a potential source for funding assistance.

Employment numbers are forecasted to remain stable during 2012 with a chance for a slight increase. One new small manufacturing company is expected to be announced during the first quarter of 2012. Several other manufacturing companies have plans for personal property investment without a need for additional employees.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. John Lauer, City Auditor, City of Fremont, 323 South Front Street, Fremont, Ohio 43420-3037.

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 9,811,942	\$ 11,496,564	\$ 21,308,506
Receivables (net of allowances for uncollectibles):			
Income taxes	3,127,181		3,127,181
Property and other local taxes	849,009		849,009
Accounts	36,346	1,839,564	1,875,910
Loans	299,366		299,366
Accrued interest	38,830		38,830
Due from other governments	785,032		785,032
Materials and supplies inventory	66,413	260,048	326,461
Deferred bond issue costs	99,488	304,572	404,060
Internal balance	37	(37)	
Restricted assets:			
Equity in pooled cash and cash equivalents		62,715	62,715
Capital assets:			
Land and construction in progress	1,003,061	28,485,311	29,488,372
Depreciable capital assets, net	21,293,092	40,350,219	61,643,311
Total capital assets, net	<u>22,296,153</u>	<u>68,835,530</u>	<u>91,131,683</u>
 Total assets	 <u>37,409,797</u>	 <u>82,798,956</u>	 <u>120,208,753</u>
Liabilities:			
Accounts payable	79,616	468,540	548,156
Contracts payable	112,868	126,588	239,456
Accrued wages and benefits	362,410	163,743	526,153
Pension obligation payable	248,739	16,308	265,047
Due to claimants	10,710		10,710
Accrued interest payable	28,349	13,954	42,303
Unearned revenue	753,436		753,436
Payable from restricted assets:			
Refundable deposits		62,715	62,715
Long-term liabilities:			
Due within one year	406,189	541,212	947,401
Due in more than one year	3,582,369	22,463,868	26,046,237
 Total liabilities	 <u>5,584,686</u>	 <u>23,856,928</u>	 <u>29,441,614</u>
Net assets:			
Invested in capital assets, net of related debt	19,948,353	46,497,083	66,445,436
Restricted for:			
Debt service	307,409		307,409
Capital Projects	803,300		803,300
Transportation projects	835,078		835,078
Police and fire pension	982,044		982,044
Revolving loans	459,310		459,310
Recreation	262,142		262,142
Other purposes	3,565,663		3,565,663
Unrestricted	4,661,812	12,444,945	17,106,757
 Total net assets	 <u>\$ 31,825,111</u>	 <u>\$ 58,942,028</u>	 <u>\$ 90,767,139</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,308,102	\$ 484,546	\$ 4,847	
Security of persons and property	6,799,182	67,063	6,365	
Public health and welfare	4,302			
Transportation.	1,816,371	57,083	743,429	\$ 254,570
Community environment	507,123		382,544	839,695
Leisure time activity	2,041,218	419,321	36,221	
Economic development.	93,681		7,769	
Contract services	6,108		5,945	
Interest and fiscal charges.	128,339			
Total governmental activities	13,704,426	1,028,013	1,187,120	1,094,265
Business-type activities:				
Water	5,504,421	4,843,107		2,348,978
Sewer	3,580,532	6,149,278		115,484
Total business-type activities	9,084,953	10,992,385		2,464,462
Total primary government	\$ 22,789,379	\$ 12,020,398	\$ 1,187,120	\$ 3,558,727

General revenues:

Income taxes levied for:	
General purposes	
Property taxes levied for:	
General purposes	
Police pension.	
Fire pension.	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Miscellaneous	
Total general revenues.	
Transfers.	
Change in net assets	
Net assets at beginning of year (restated)	
Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,818,709)		\$ (1,818,709)
(6,725,754)		(6,725,754)
(4,302)		(4,302)
(761,289)		(761,289)
715,116		715,116
(1,585,676)		(1,585,676)
(85,912)		(85,912)
(163)		(163)
(128,339)		(128,339)
<u>(10,395,028)</u>		<u>(10,395,028)</u>
	\$ 1,687,664	1,687,664
	<u>2,684,230</u>	<u>2,684,230</u>
	4,371,894	4,371,894
<u>(10,395,028)</u>	<u>4,371,894</u>	<u>(6,023,134)</u>
7,073,674		7,073,674
823,352		823,352
87,020		87,020
87,020		87,020
949,469		949,469
100,801	1,076	101,877
<u>241,449</u>	<u>60,147</u>	<u>301,596</u>
<u>9,362,785</u>	<u>61,223</u>	<u>9,424,008</u>
<u>(673,109)</u>	<u>673,109</u>	
(1,705,352)	5,106,226	3,400,874
<u>33,530,463</u>	<u>53,835,802</u>	<u>87,366,265</u>
<u>\$ 31,825,111</u>	<u>\$ 58,942,028</u>	<u>\$ 90,767,139</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 5,120,454	\$ 1,007,370	\$ 3,666,453	\$ 9,794,277
Receivables (net of allowance for uncollectibles):				
Income taxes.	3,127,181			3,127,181
Property and other local taxes.	689,831		159,178	849,009
Accounts.	24,895		11,451	36,346
Accrued interest.	38,830			38,830
Loans			299,366	299,366
Due from other governments.	396,999		388,033	785,032
Materials and supplies inventory.			66,413	66,413
Total assets	\$ 9,398,190	\$ 1,007,370	\$ 4,590,894	\$ 14,996,454
Liabilities:				
Accounts payable	\$ 47,893		\$ 31,231	\$ 79,124
Contracts payable		\$ 112,868		112,868
Accrued wages and benefits payable	318,705		41,005	359,710
Compensated absences payable.	55,067			55,067
Pension obligation payable.	244,653		3,827	248,480
Due to claimants.	10,710			10,710
Deferred revenue	2,064,103		267,225	2,331,328
Unearned revenue	612,168		141,268	753,436
Total liabilities	3,353,299	112,868	484,556	3,950,723
Fund balances:				
Nonspendable			66,413	66,413
Restricted.			2,929,216	2,929,216
Committed	4,086,660	894,502	803,300	5,784,462
Assigned	1,405,927		307,409	1,713,336
Unassigned	552,304			552,304
Total fund balances.	6,044,891	894,502	4,106,338	11,045,731
Total liabilities and fund balances	\$ 9,398,190	\$ 1,007,370	\$ 4,590,894	\$ 14,996,454

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total governmental fund balances		\$	11,045,731
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			22,296,153
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Income taxes receivable	\$	1,695,044	
Property and other local taxes receivable		95,573	
Due from other governments		501,881	
Accrued interest receivable		38,830	
Total		2,331,328	2,331,328
Internal service funds are used by management to charge the costs of internal equipment service and employee benefits to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net assets.			14,214
An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.			37
In the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due.			(28,349)
Deferred bond issuance costs are not recognized in the funds.			99,488
Unamortized premiums on bond issuances are not recognized in the funds.			(69,916)
Unamortized deferred losses on refundings are not recognized in the funds.			102,628
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		(2,480,000)	
Ohio police and fire pension obligation		(723,810)	
Compensated absences		(762,393)	
Total		(3,966,203)	(3,966,203)
Net assets of governmental activities		\$	31,825,111

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, 2011

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 7,766,274			\$ 7,766,274
Property and other local taxes	810,907		\$ 171,170	982,077
Charges for services	29,388		420,321	449,709
Licenses, permits and fees	6,638			6,638
Fines and forfeitures	304,720		187,613	492,333
Intergovernmental	977,728	\$ 844,265	1,402,713	3,224,706
Special assessments		78,713		78,713
Investment income	76,926	883	2,315	80,124
Other	238,884	2,565	62,737	304,186
Total revenues.	<u>10,211,465</u>	<u>926,426</u>	<u>2,246,869</u>	<u>13,384,760</u>
Expenditures:				
Current:				
General government	2,170,122		37,188	2,207,310
Security of persons and property.	5,667,847		823,027	6,490,874
Public health and welfare	4,246			4,246
Transportation			1,075,087	1,075,087
Community environment.	125,413		388,130	513,543
Leisure time activity	671,287		797,487	1,468,774
Economic development and assistance	114,745		20,500	135,245
Contract services			6,029	6,029
Capital outlay.	11,418	2,196,193	100,000	2,307,611
Debt service:				
Principal retirement			302,727	302,727
Interest and fiscal charges			114,354	114,354
Total expenditures	<u>8,765,078</u>	<u>2,196,193</u>	<u>3,664,529</u>	<u>14,625,800</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,446,387</u>	<u>(1,269,767)</u>	<u>(1,417,660)</u>	<u>(1,241,040)</u>
Other financing sources (uses):				
Transfers in		734,745	1,577,000	2,311,745
Transfers out.	<u>(2,223,745)</u>		<u>(88,000)</u>	<u>(2,311,745)</u>
Total other financing sources (uses)	<u>(2,223,745)</u>	<u>734,745</u>	<u>1,489,000</u>	
Net change in fund balances	(777,358)	(535,022)	71,340	(1,241,040)
Fund balances at beginning of year (restated).	<u>6,822,249</u>	<u>1,429,524</u>	<u>4,034,998</u>	<u>12,286,771</u>
Fund balances at end of year	<u>\$ 6,044,891</u>	<u>\$ 894,502</u>	<u>\$ 4,106,338</u>	<u>\$ 11,045,731</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund balances - total governmental funds	\$	(1,241,040)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Capital asset additions	\$ 1,477,577	
Current year depreciation	(1,490,829)	
Total		(13,252)
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.		
		(16,715)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	15,315	
Intergovernmental	(57,741)	
Municipal income taxes	(692,600)	
Interest	22,449	
Total		(712,577)
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 assets.		
		302,727
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	3,259	
Amortization of bond premiums	9,119	
Amortization of deferred amounts on refunding	(13,386)	
Amortization of bond issuance costs	(12,977)	
Total		(13,985)
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.		
		(10,281)
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 \$51, is allocated among the governmental activities.		
		(229)
Change in net assets of governmental activities	\$	(1,705,352)

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property and other local taxes	\$ 745,734	\$ 814,761	\$ 810,907	\$ (3,854)
Charges for services	27,026	29,528	29,388	(140)
Licenses, permits and fees	6,104	6,670	6,638	(32)
Fines and forfeitures	275,123	300,589	299,167	(1,422)
Intergovernmental	949,021	1,036,866	1,031,961	(4,905)
Investment income	67,573	73,827	73,478	(349)
Other	107,941	117,932	117,374	(558)
Total revenues.	<u>2,178,522</u>	<u>2,380,173</u>	<u>2,368,913</u>	<u>(11,260)</u>
Expenditures:				
Current:				
General government	1,692,532	1,731,532	1,652,964	78,568
Security of persons and property.	5,346,229	5,889,361	5,742,280	147,081
Public health and welfare	14,829	14,829	4,311	10,518
Community environment.	131,087	131,087	123,619	7,468
Leisure time activity	659,975	719,175	692,176	26,999
Economic development and assistance	115,799	118,799	114,835	3,964
Total expenditures	<u>7,960,451</u>	<u>8,604,783</u>	<u>8,330,185</u>	<u>274,598</u>
Excess of expenditures over revenues.	<u>(5,781,929)</u>	<u>(6,224,610)</u>	<u>(5,961,272)</u>	<u>263,338</u>
Other financing sources (uses):				
Sale of capital assets	4,494	4,910	4,887	(23)
Advances in.	500,000	500,000	500,000	
Transfers in.	5,326,984	5,866,349	5,836,232	(30,117)
Transfers out	<u>(610,000)</u>	<u>(644,745)</u>	<u>(644,745)</u>	
Total other financing sources (uses)	<u>5,221,478</u>	<u>5,726,514</u>	<u>5,696,374</u>	<u>(30,140)</u>
Net change in fund balance.	(560,451)	(498,096)	(264,898)	233,198
Fund balance at beginning of year (restated).	1,783,057	1,783,057	1,783,057	
Prior year encumbrances appropriated	<u>125,573</u>	<u>125,573</u>	<u>125,573</u>	
Fund balance at end of year.	<u>\$ 1,348,179</u>	<u>\$ 1,410,534</u>	<u>\$ 1,643,732</u>	<u>\$ 233,198</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total	Activities - Internal Service Funds
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 3,692,063	\$ 7,804,501	\$ 11,496,564	\$ 17,665
Receivables (net of allowance for uncollectibles):				
Accounts	845,174	994,390	1,839,564	
Materials and supplies inventory	228,906	31,142	260,048	
Noncurrent assets:				
Restricted assets:				
Equity in pooled cash and cash equivalents.	62,715		62,715	
Unamortized bond issue costs	304,572		304,572	
Capital assets:				
Land and construction in progress.	27,300,150	1,185,161	28,485,311	
Depreciable capital assets, net.	31,760,284	8,589,935	40,350,219	
Total capital assets, net.	59,060,434	9,775,096	68,835,530	
Total assets	64,193,864	18,605,129	82,798,993	17,665
Liabilities:				
Current liabilities:				
Accounts payable.	403,308	65,232	468,540	492
Contracts payable.	110,052	16,536	126,588	
Accrued wages and benefits payable	76,580	87,163	163,743	2,700
Pension obligation payable.	7,714	8,594	16,308	259
Accrued interest payable	13,954		13,954	
Current portion of compensated absences.	45,013	21,974	66,987	
Current portion of general obligation bonds payable .	455,000		455,000	
Current portion of OPWC loans payable		19,225	19,225	
Payable from restricted assets:				
Refundable deposits	62,715		62,715	
Total current liabilities	1,174,336	218,724	1,393,060	3,451
Long-term liabilities:				
Compensated absences payable	114,592	180,482	295,074	
General obligation bonds payable	7,035,000		7,035,000	
OWDA loans payable.	14,762,261	167,391	14,929,652	
OPWC loans payable.		204,142	204,142	
Total long-term liabilities	21,911,853	552,015	22,463,868	
Total liabilities.	23,086,189	770,739	23,856,928	3,451
Net assets:				
Invested in capital assets, net of related debt.	37,112,745	9,384,338	46,497,083	
Unrestricted	3,994,930	8,450,052	12,444,982	14,214
Total net assets	\$ 41,107,675	\$ 17,834,390	58,942,065	\$ 14,214
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds			(37)	
Net assets of business-type activities			\$ 58,942,028	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<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	\$ 4,839,297	\$ 6,149,278	\$ 10,988,575	\$ 76,212
Tap-in fees.	3,810		3,810	
Other.	33,551	5,634	39,185	
Total operating revenues	<u>4,876,658</u>	<u>6,154,912</u>	<u>11,031,570</u>	<u>76,212</u>
Operating expenses:				
Personal services	1,591,576	1,897,107	3,488,683	58,513
Contractual services.	1,283,177	314,017	1,597,194	2,196
Materials and supplies.	642,651	337,333	979,984	912
Utilities expense.	231,383	424,826	656,209	8,004
Depreciation	1,406,945	526,109	1,933,054	
Other	82,962	79,682	162,644	6,867
Total operating expenses.	<u>5,238,694</u>	<u>3,579,074</u>	<u>8,817,768</u>	<u>76,492</u>
Operating income (loss)	<u>(362,036)</u>	<u>2,575,838</u>	<u>2,213,802</u>	<u>(280)</u>
Nonoperating revenues (expenses):				
Interest revenue.	846	230	1,076	
Interest and fiscal charges	(394,288)		(394,288)	
Gain (loss) on sale of capital assets	82	(1,447)	(1,365)	
Intergovernmental	14,400	6,480	20,880	
Total nonoperating revenues (expenses)	<u>(378,960)</u>	<u>5,263</u>	<u>(373,697)</u>	
Net income (loss) before capital contributions and transfers.	(740,996)	2,581,101	1,840,105	(280)
Transfers in - Capital Contributions from Other Funds	304,366	370,315	674,681	
Transfer out - Capital Contributions to Other Funds		(1,572)	(1,572)	
Capital contributions.	<u>2,477,579</u>	<u>115,484</u>	<u>2,593,063</u>	
Changes in net assets	2,040,949	3,065,328	5,106,277	(280)
Net assets at beginning of year (restated)	<u>39,066,726</u>	<u>14,769,062</u>		<u>14,494</u>
Net assets at end of year	<u>\$ 41,107,675</u>	<u>\$ 17,834,390</u>		<u>\$ 14,214</u>
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds			(51)	
Change in net assets of business-type activities			<u>\$ 5,106,226</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, 2011

	Business-type Activities - Enterprise Funds			Governmental
	Water	Sewer	Total	Activities - Internal Service Funds
Cash flows from operating activities:				
Cash received from charges for services	\$ 4,830,847	\$ 6,009,112	\$ 10,839,959	\$ 76,212
Cash received from tap-in fees	3,810		3,810	
Cash received from other operations	64,126	5,634	69,760	
Cash payments for personal services	(1,576,278)	(1,909,538)	(3,485,816)	(57,874)
Cash payments for contractual services	(1,263,401)	(288,166)	(1,551,567)	(2,555)
Cash payments for materials and supplies.	(647,688)	(316,298)	(963,986)	(912)
Cash payments for utilities expense.	(225,156)	(420,924)	(646,080)	(8,004)
Cash payments for other expenses	(91,236)	(78,355)	(169,591)	(6,867)
Net cash provided by operating activities	<u>1,095,024</u>	<u>3,001,465</u>	<u>4,096,489</u>	
Cash flows from noncapital financing activities:				
Cash received from special assessments	14,400	6,480	20,880	
Cash used in repayment of interfund loans.	(500,000)		(500,000)	
Net cash provided by (used in) noncapital financing activities	<u>(485,600)</u>	<u>6,480</u>	<u>(479,120)</u>	
Cash flows from capital and related financing activities:				
Cash payments for the acquisition of capital assets.	(14,658,972)	(121,194)	(14,780,166)	
Cash received from the sale of capital assets	82	725	807	
Cash received from capital contributions.	2,477,579	115,484	2,593,063	
Cash payments for principal retirement.	(463,946)	(19,225)	(483,171)	
Cash payments for interest and fiscal charges	(378,333)		(378,333)	
Cash received from OWDA loan issuance.	<u>12,983,664</u>		<u>12,983,664</u>	
Net cash used in capital and related financing activities.	<u>(39,926)</u>	<u>(24,210)</u>	<u>(64,136)</u>	
Cash flows from investing activities:				
Cash received from interest earned.	<u>846</u>	<u>230</u>	<u>1,076</u>	
Net cash provided by investing activities	<u>846</u>	<u>230</u>	<u>1,076</u>	
Net increase in cash and cash equivalents.	570,344	2,983,965	3,554,309	
Cash and cash equivalents at beginning of year	<u>3,184,434</u>	<u>4,820,536</u>	<u>8,004,970</u>	<u>17,665</u>
Cash and cash equivalents at end of year.	<u>\$ 3,754,778</u>	<u>\$ 7,804,501</u>	<u>\$ 11,559,279</u>	<u>\$ 17,665</u>

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**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (362,036)	\$ 2,575,838	\$ 2,213,802	\$ (280)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,406,945	526,109	1,933,054	
Changes in assets and liabilities:				
(Increase) decrease in materials and supplies inventory	(5,560)	21,016	15,456	
(Increase) in accounts receivable.	(8,450)	(140,166)	(148,616)	
Increase in accounts payable.	325,661	16,037	341,698	
Increase (decrease) in contracts payable	(290,959)	14,692	(276,267)	127
Increase in accrued wages and benefits.	8,272	4,031	12,303	131
Increase (decrease) in compensated absences payable	5,980	(16,982)	(11,002)	
Increase in refundable deposits liability.	13,880		13,880	
Increase in pension obligation payable	1,291	890	2,181	\$ 22
Net cash provided by operating activities	<u>\$ 1,095,024</u>	<u>\$ 3,001,465</u>	<u>\$ 4,096,489</u>	

During 2011, the water fund received \$302,794 in capital contributions from other funds.
 During 2011, the water fund received \$128,601 in OWDA loan proceeds and loan forgiveness payments through the American Recovery and Reinvestment Act (ARRA) funds.
 During 2011, the sewer fund transferred \$1,572 in capital contributions to the water fund.
 During 2011, the sewer fund received \$370,315 in capital contributions from other funds.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2011

		Agency
Assets:		
Equity in pooled cash and cash equivalents	\$	52,671
Cash in segregated accounts.		6,433
Receivables:		
Accounts		2,968
Total assets	\$	62,072
Liabilities:		
Due to other governments	\$	8,648
Deposits held and due to others		53,424
Total liabilities.	\$	62,072

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, 2011**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Fremont (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under a Council/Mayor form of government and provides the following services to its residents: public safety, highways and streets, water, sanitation, health and social services, culture recreation, public improvements, planning and zoning and general administration services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided it does not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB guidance issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply this FASB guidance. The most significant of the City's accounting policies are described below.

A. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the organization's budget, the issuance of its debt or the levying of its taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the City and the organization is such that exclusion by the City would render the City's financial statements incomplete or misleading. Based upon these criteria, the City has no component units but is a member of an insurance pool described in Note 13.

B. Basis of Presentation - Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental program is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The following are the City's major governmental funds:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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.

Capital improvement fund - The capital improvement capital projects fund is used to account for financial resources that are committed to expenditures related to various construction projects.

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.

PROPRIETARY FUNDS

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise funds - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

D. Measurement Focus and Basis of Accounting

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

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

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

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

E. Basis of Accounting

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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.

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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2011, are recorded as deferred revenue in the governmental funds.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

F. Budgetary Process

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

Estimated Resources - The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. 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 official certificate of estimated resources issued during 2011.

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 2011.

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at year end are reported as 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 2011, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), Federal Home Loan Bank (FHLB) securities and nonnegotiable certificates of deposit.

Investments are reported at fair value, except for non-negotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2011.

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 2011 was \$76,926, which includes \$55,841 assigned from other City funds.

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

H. Loans Receivable

Loans receivable represent the right to receive repayment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients. On the fund financial statements, reported loans receivable is offset by a nonspendable fund balance for amounts due in more than one year.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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 assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. The City's governmental infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers and streets. The City's proprietary and business-type infrastructure consists of water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of proprietary capital assets is also capitalized. There was no interest capitalized during 2011.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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.

M. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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, 2011
(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, 2011 are comprised of the following:

	<u>Cash and Cash Equivalents</u>
Customer deposits	<u>\$ 62,715</u>

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

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

On government-wide financial statements and on the proprietary fund statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized issuance costs are recorded as deferred bond issuance costs on the statement of net assets.

Bond premiums 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.

For advance refundings resulting in the defeasance of debt, 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 an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net assets 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, 2011
(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 2011, the water enterprise fund received \$2,781,945 and the sewer enterprise fund received \$485,799 in capital contributions.

S. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. None of the City's net assets are restricted by enabling legislation.

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 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, 2011
(Continued)**

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Fund Reclassifications/Restatement of Net Assets

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the City's governmental fund balances as previously reported. The City has also presented a correction to the general fund to record an interfund loan receivable in the general fund that was due from the water fund but was recorded as a transfer in a prior year.

	<u>General</u>	<u>Municipal Income Tax</u>	<u>Capital Improvement</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 1,707,668	\$ 3,766,505	\$ 1,429,524	\$ 4,883,074	\$ 11,786,771
Fund reclassifications:					
Municipal Income Tax	3,766,505	(3,766,505)			
R.L. Walsh Trust	807,011			(807,011)	
Recreation Trust	<u>41,065</u>			<u>(41,065)</u>	
Total fund reclassifications	<u>4,614,581</u>	<u>\$ (3,766,505)</u>		<u>(848,076)</u>	
Restatement to record interfund loan receivable recorded as a transfer in a prior year	<u>500,000</u>				<u>500,000</u>
Restated fund balance at January 1, 2011	<u>\$ 6,822,249</u>		<u>\$ 1,429,524</u>	<u>\$ 4,034,998</u>	<u>\$ 12,286,771</u>

The restatement related to the interfund loan had the following effect on net assets at January 1, 2011:

	<u>Governmental Activities</u>	<u>Water Fund</u>	<u>Business-type Activities</u>
Net assets as previously reported	\$ 33,030,463	\$ 39,566,726	\$ 54,335,802
Restatement to record interfund loan receivable/payable recorded as a transfer in a prior year	<u>500,000</u>	<u>(500,000)</u>	<u>(500,000)</u>
Restated net assets at January 1, 2011	<u>\$ 33,530,463</u>	<u>\$ 39,066,726</u>	<u>\$ 53,835,802</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The City has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required.

The restatement of the general fund's budgetary-basis fund balance at December 31, 2011 is as follows:

	<u>General Fund</u>
Balance at December 31, 2010	\$ 2,028,357
Funds budgeted elsewhere	<u>(245,300)</u>
Restated balance at January 1, 2011	<u>\$ 1,783,057</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

Restricted equity in pooled cash: At year-end, the City had \$62,715 in restricted assets for refundable deposits from customers of the water fund. This amount is included in the "deposits with financial institutions" below.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash in Segregated Accounts

At year end, \$6,433 was on deposit in segregated accounts for the Municipal Court and small business checking account. These accounts are included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the balance sheet as “equity in pooled cash and cash equivalents”.

B. Deposits with Financial Institutions

As of December 31, 2011, the carrying amount of all City deposits was \$17,515,293. At December 31, 2011, \$7,563,101 of the City’s bank balance of \$17,756,015 was covered by the Federal Deposit Insurance Corporation and \$10,192,914 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, 2011, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
STAR Ohio	\$ 409,949	\$ 409,949		
FHLB	3,498,650		\$ 1,000,000	\$ 2,498,650
Total	\$ 3,908,599	\$ 409,949	\$ 1,000,000	\$ 2,498,650

The weighted average maturity of investments is 1.41 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Concentration of Credit Risk: The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 409,949	10.49%
FHLB	<u>3,498,650</u>	<u>89.51%</u>
Total	<u>\$ 3,908,599</u>	<u>100.00%</u>

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

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 assets as of December 31, 2011:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 17,515,293
Investments	3,908,599
Cash in segregated accounts	<u>6,433</u>
Total	<u>\$ 21,430,325</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 9,811,942
Business type activities	11,559,279
Agency funds	<u>59,104</u>
Total	<u>\$ 21,430,325</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2011 consisted of the following, as reported in the fund financial statements:

<u>Transfers from general fund to:</u>	
Capital improvement fund	\$ 734,745
Nonmajor governmental funds	1,489,000
<u>Transfers from nonmajor governmental fund to:</u>	
Nonmajor governmental fund	<u>88,000</u>
Total	<u>\$ 2,311,745</u>

The \$88,000 transfer from the revolving loan fund (a nonmajor governmental fund) to the Ohio CDBG fund (a nonmajor governmental fund) was a mandated transfer per an Ohio CDBG grant.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 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, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 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.

The full tax rate for all City operations for the year ended December 31, 2011 was \$3.20 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

<u>Real property</u>	
Residential/agricultural	\$ 152,116,300
Commercial/industrial/mineral	97,817,770
 <u>Public utility</u>	
Real	77,980
Personal	<u>9,927,850</u>
Total assessed value	<u>\$ 259,939,900</u>

NOTE 7 - LOCAL INCOME TAX

The City levies and collects an income tax of 1.5 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax revenue is credited to the general fund and amounted to \$7,766,274 in 2011.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2011 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, 2011, as well as intended to finance 2011 operations.

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

<u>Receivables:</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Income taxes	\$ 3,127,181	
Property and other local taxes	849,009	
Accounts	36,346	\$ 1,839,564
Loans	299,366	
Accrued interest	38,830	
Due from other governments	<u>785,032</u>	
Total	<u>\$ 5,135,764</u>	<u>\$ 1,839,564</u>

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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 2011, there were loans to four businesses with a total principal balance of \$299,366. \$19,517 is the amount due within one year and \$279,849 is due in more than one year.

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

<u>Governmental activities:</u>	Balance <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 803,959	\$ 5,600		\$ 809,559
Construction-in-progress	<u>66,644</u>	<u>126,858</u>		<u>193,502</u>
<i>Total capital assets, not being depreciated</i>	<u>870,603</u>	<u>132,458</u>		<u>1,003,061</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	4,600,204			4,600,204
Buildings and improvements	12,550,648	68,932	\$ (48,590)	12,570,990
Machinery and equipment	5,103,301	780,458	(257,501)	5,626,258
Infrastructure	<u>16,660,152</u>	<u>495,729</u>		<u>17,155,881</u>
<i>Total capital assets, being depreciated</i>	<u>38,914,305</u>	<u>1,345,119</u>	<u>(306,091)</u>	<u>39,953,333</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,410,811)	(202,970)		(1,613,781)
Buildings and improvements	(4,521,130)	(362,188)	44,617	(4,838,701)
Machinery and equipment	(3,465,782)	(277,778)	244,759	(3,498,801)
Infrastructure	<u>(8,061,065)</u>	<u>(647,893)</u>		<u>(8,708,958)</u>
<i>Total accumulated depreciation</i>	<u>(17,458,788)</u>	<u>(1,490,829)</u>	<u>289,376</u>	<u>(18,660,241)</u>
Total capital assets, being depreciated, net	<u>21,455,517</u>	<u>(145,710)</u>	<u>(16,715)</u>	<u>21,293,092</u>
Total capital assets, net	<u>\$ 22,326,120</u>	<u>\$ (13,252)</u>	<u>\$ (16,715)</u>	<u>\$ 22,296,153</u>

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

<u>Governmental activities:</u>	
General government	\$ 52,668
Security of persons and property	207,054
Transportation	756,243
Leisure time activities	453,437
Economic development	<u>21,427</u>
Total depreciation expense	<u>\$ 1,490,829</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Business-type activities:</u>	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 903,988			\$ 903,988
Construction-in-progress	<u>12,833,097</u>	<u>\$ 14,748,226</u>	<u> </u>	<u>27,581,323</u>
<i>Total capital assets, not being depreciated</i>	<u>13,737,085</u>	<u>14,748,226</u>	<u> </u>	<u>28,485,311</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,603,765			1,603,765
Buildings and improvements	36,048,540		\$ (10,375)	36,038,165
Machinery and equipment	8,065,061	127,715	(127,178)	8,065,598
Infrastructure	<u>22,756,129</u>	<u>578,906</u>	<u> </u>	<u>23,335,035</u>
<i>Total capital assets, being depreciated</i>	<u>68,473,495</u>	<u>706,621</u>	<u>(137,553)</u>	<u>69,042,563</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(317,814)	(46,329)		(364,143)
Buildings and improvements	(14,253,757)	(1,007,753)	10,375	(15,251,135)
Machinery and equipment	(5,433,769)	(417,985)	123,434	(5,728,320)
Infrastructure	<u>(6,887,759)</u>	<u>(460,987)</u>	<u> </u>	<u>(7,348,746)</u>
<i>Total accumulated depreciation</i>	<u>(26,893,099)</u>	<u>(1,933,054)</u>	<u>133,809</u>	<u>(28,692,344)</u>
Total capital assets, being depreciated, net	<u>41,580,396</u>	<u>(1,226,433)</u>	<u>(3,744)</u>	<u>40,350,219</u>
Total capital assets, net	<u>\$ 55,317,481</u>	<u>\$ 13,521,793</u>	<u>\$ (3,744)</u>	<u>\$ 68,835,530</u>

Construction in progress represents costs in and out of the water and sewer funds relating to the Reservoir, OEPA Long Term Plan, and North Street Siphon, as of December 31, 2011.

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	\$ 1,406,945
Sewer fund	<u>526,109</u>
Total depreciation expense	<u>\$ 1,933,054</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. Governmental Activities

The City's governmental activities long-term obligations at December 31, 2011 were as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 11 – LONG-TERM OBLIGATIONS (Continued)

	Balance	Increases	Decreases	Balance	Amount Due
<u>Governmental activities:</u>	<u>12/31/10</u>			<u>12/31/11</u>	<u>Within</u>
					<u>One Year</u>
<u>General obligation bonds</u>					
Community center	\$ 2,765,000		\$ (285,000)	\$ 2,480,000	\$ 285,000
<u>Pension liability</u>					
Police and fire pension	741,537		(17,727)	723,810	18,489
<u>Other long-term obligations</u>					
Compensated absences	<u>829,024</u>	<u>\$ 91,809</u>	<u>(103,373)</u>	<u>817,460</u>	<u>102,700</u>
Total	<u>\$ 4,335,561</u>	<u>\$ 91,809</u>	<u>\$ (406,100)</u>	4,021,270	<u>\$ 406,189</u>
Unamortized premium on bonds	79,035			69,916	
Deferred loss on advance refunding	<u>(116,014)</u>			<u>(102,628)</u>	
Total long-term obligations	<u>\$ 4,298,582</u>			<u>\$ 3,988,558</u>	

General Obligation Bonds

The 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, 2011 is \$2,425,000; 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 Past Service Liability

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

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, 2011 were as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

	Balance	Increases	Decreases	Balance	Amount Due
<u>Business-type activities:</u>	<u>12/31/10</u>			<u>12/31/11</u>	<u>Within</u>
					<u>One Year</u>
<u>General obligation bonds</u>					
Water #531 - series 2003	\$ 4,290,000		\$ (230,000)	\$ 4,060,000	\$ 240,000
Water #532 - series 2003	1,770,000		(95,000)	1,675,000	100,000
Water #533 - series 2003	<u>1,865,000</u>		<u>(110,000)</u>	<u>1,755,000</u>	<u>115,000</u>
Total	<u>7,925,000</u>		<u>(435,000)</u>	<u>7,490,000</u>	<u>455,000</u>
<u>OPWC loans</u>					
Sewer - series 2001	113,658		(10,333)	103,325	10,333
Sewer - series 2004	<u>128,934</u>		<u>(8,892)</u>	<u>120,042</u>	<u>8,892</u>
Total	<u>242,592</u>		<u>(19,225)</u>	<u>223,367</u>	<u>19,225</u>
<u>OWDA loans</u>					
WWTP high rate clarification					
project	167,391			167,391	
Water reservoir phase 1	1,266,803	\$ 3,217,866		4,484,669	
Water reservoir phase 2	540,740	1,118,991		1,659,731	
Off stream raw water - supply phase 2A		813,861	(157,547)	656,314	
Water reservoir phase 1 - supplement		<u>7,961,547</u>		<u>7,961,547</u>	
Total	<u>1,974,934</u>	<u>13,112,265</u>	<u>(157,547)</u>	<u>14,929,652</u>	
<u>Other long-term obligations</u>					
Compensated absences	<u>373,063</u>	<u>86,377</u>	<u>(97,379)</u>	<u>362,061</u>	<u>66,987</u>
Total long-term obligations	<u>\$ 10,515,589</u>	<u>\$ 13,198,642</u>	<u>\$ (709,151)</u>	<u>\$ 23,005,080</u>	<u>\$ 541,212</u>

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 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid out of the water fund. The general obligation bonds were issued for improvements to the water plant and facilities. A portion of the proceeds of the bonds were used for the advance refunding of the 1994 general obligation bonds. These proceeds were used to purchase state and local government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The balance of the refunded bonds at December 31, 2011 is \$3,885,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds: Water – (#533 - Series 2003)

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

The general obligation bonds were originally issued in 1993 for \$2,745,000, were reissued in 2003 for \$2,350,000, and carry an interest rate of 2.00 - 5.00 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid from the water fund. The general obligation bonds were issued for improvements to the water plant and facilities. A portion of the proceeds of the bonds were used for the advance refunding of the 1994 mortgage revenue bonds. These proceeds were used to purchase state and local government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The balance of the refunded bonds at December 31, 2011 is \$1,745,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

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 loans

In 2010, the City entered into loans with the Ohio Water Development Authority (OWDA) for the construction of the Water Reservoir Phase 1, Water Reservoir Phase 2 and Waste Water Treatment Plant High Rate Clarification Design. The OWDA loans carry an interest rate of 3.15 - 4.04 percent and mature on January 1, 2032. Repayment of this loan will be funded through user charges.

As of December 31, 2011, 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 1.30 percent of net revenues and 0.49 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$14,929,652. Principal and interest paid for the current year were \$54,084, total net revenues were \$4,147,932 and total revenues were \$11,031,570.

- 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, 2011 are as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(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
2012	\$ 285,000	\$ 75,900	\$ 360,900	\$ 18,489	\$ 30,567	\$ 49,056
2013	290,000	68,775	358,775	19,283	29,773	49,056
2014	295,000	61,525	356,525	20,111	28,945	49,056
2015	305,000	54,150	359,150	20,975	28,081	49,056
2016	315,000	45,000	360,000	21,876	27,180	49,056
2017 - 2021	990,000	74,300	1,064,300	124,305	120,975	245,280
2022 - 2026				153,396	91,884	245,280
2027 - 2031				189,292	55,988	245,280
2032 - 2035				156,083	13,410	169,493
Total	\$ 2,480,000	\$ 379,650	\$ 2,859,650	\$ 723,810	\$ 426,803	\$ 1,150,613

Year Ending December 31,	General Obligation Bonds - Water #531 - Series 2003			General Obligation Bonds - Water #532 - Series 2003		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 240,000	\$ 182,846	\$ 422,846	\$ 100,000	\$ 75,411	\$ 175,411
2013	250,000	173,246	423,246	105,000	71,411	176,411
2014	260,000	163,246	423,246	110,000	67,211	177,211
2015	270,000	152,846	422,846	110,000	62,811	172,811
2016	280,000	141,911	421,911	115,000	58,356	173,356
2017 - 2021	1,600,000	518,255	2,118,255	660,000	213,158	873,158
2022 - 2026	1,160,000	117,750	1,277,750	475,000	48,250	523,250
Total	\$ 4,060,000	\$ 1,450,100	\$ 5,510,100	\$ 1,675,000	\$ 596,608	\$ 2,271,608

Year Ending December 31,	General Obligation Bonds - Water #533 - Series 2003		
	Principal	Interest	Total
2012	\$ 115,000	\$ 78,081	\$ 193,081
2013	120,000	73,481	193,481
2014	125,000	68,681	193,681
2015	130,000	63,681	193,681
2016	135,000	58,416	193,416
2017 - 2021	770,000	200,398	970,398
2022 - 2026	360,000	27,251	387,251
Total	\$ 1,755,000	\$ 569,989	\$ 2,324,989

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Year Ending December 31,	OPWC Loans - Sewer - Series 2001			OPWC Loans - Sewer - Series 2004		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 10,333		\$ 10,333	\$ 8,892		\$ 8,892
2013	10,333		10,333	8,892		8,892
2014	10,332		10,332	8,892		8,892
2015	10,333		10,333	8,892		8,892
2016	10,332		10,332	8,892		8,892
2017 - 2021	51,662		51,662	44,460		44,460
2022 - 2026				31,122		31,122
Total	<u>\$ 103,325</u>		<u>\$ 103,325</u>	<u>\$ 120,042</u>		<u>\$ 120,042</u>

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, 2011, the City's voted debt margin was \$24,070,486 and the unvoted debt margin was \$11,573,783.

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, 2011, the governmental activities liability for compensated absences was \$817,460, the business-type activities liability for compensated absences was \$362,061, and the City's total liability for compensated absences was \$1,179,521.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - RISK MANAGEMENT

Property and Casualty Insurance

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

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

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), 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.

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, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Assets	\$33,362,404	\$34,952,010
Liabilities	<u>(14,187,273)</u>	<u>(14,320,812)</u>
Net Assets	<u>\$19,175,131</u>	<u>\$20,631,198</u>

At December 31, 2011 and 2010, respectively, the liabilities above include approximately \$13 million and \$12.9 million of estimated incurred claims payable. The assets above also include approximately \$12.1 million and \$12.4 million of unpaid claims to be billed to approximately 455 member governments in the future, as of December 31, 2011 and 2010, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the City's share of these unpaid claims collectible in future years is approximately \$151,000

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - RISK MANAGEMENT (Continued)

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

<u>Contributions to PEP</u>	
<u>2011</u>	<u>2010</u>
\$164,459	\$172,612

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

NOTE 14 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 14 - PENSION PLANS - (Continued)

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00%. The City's contribution rate for 2011 was 14.00%.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$502,887, \$468,990, and \$424,806, respectively; 100% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$14,590 made by the City and \$10,422 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.

Funding Policy - Plan members are required to contribute 10.00% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$245,226 and \$239,539 for the year ended December 31, 2011, \$247,179 and \$254,503 for the year ended December 31, 2010, and \$238,093 and \$247,740 for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 70.57% has been contributed for police and 71.91% has been contributed for firefighters for 2011.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, 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 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$203,258, \$266,696, and \$307,114, respectively; 100% has been contributed for 2011, 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31,

2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$129,825 and \$93,733 for the year ended December 31, 2011, \$130,859 and \$99,588 for the year ended December 31, 2010, and \$126,049 and \$96,942, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 70.57% has been contributed for police and 71.91% has been contributed for firefighters for 2011.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented:

Net Change in Fund Balance	
	<u>General fund</u>
Budget basis	\$ (264,898)
Net adjustment for revenue accruals	(44,825)
Net adjustment for expenditure accruals	(4,277)
Net adjustment for other sources/uses	(504,887)
Funds budgeted elsewhere	(68,171)
Adjustment for encumbrances	<u>109,700</u>
GAAP basis	<u>\$ (777,358)</u>

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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 R.L. Walsh Trust 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, 2011.

B. Litigation

The City is a party to several legal proceedings seeking damages or injunctive relief generally incidental to its operations. The City management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material adverse effect, if any, on the financial condition of the City.

NOTE 18 - 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	\$ 86,448
Capital projects	439,292
Other governmental	<u>196,113</u>
Total	<u>\$ 721,853</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, 2011
(Continued)**

NOTE 19 – FUND BALANCE – (Continued)

Fund balance	General	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Materials and supplies inventory			\$ 66,413	\$ 66,413
Total nonspendable			66,413	66,413
Restricted:				
Transporation projects			591,957	591,957
Police and fire pension			956,228	956,228
Revolving loans			459,310	459,310
Recreation			297,388	297,388
Other purposes			624,333	624,333
Total restricted			2,929,216	2,929,216
Committed:				
Capital projects		\$ 894,502	803,300	1,697,802
Municipal income tax	\$ 4,086,660			4,086,660
Total committed	4,086,660	894,502	803,300	5,784,462
Assigned:				
General government	27,181			27,181
Securities of persons and property	17,358			17,358
Public health and welfare	65			65
Community environment	1,142			1,142
Leisure time activities	20,194			20,194
Economic environment	356			356
R.L. Walsh trust	432,782			432,782
Recreation trust	31,714			31,714
Subsequent year appropriations	875,135			875,135
Debt service			307,409	307,409
Total assigned	1,405,927		307,409	1,713,336
Unassigned	552,304			552,304
Total fund balances	\$ 6,044,891	\$ 894,502	\$ 4,106,338	\$ 11,045,731

**CITY OF FREMONT
SANDUSKY COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF COMMERCE			
Direct Assistance			
ARRA - Economic Adjustment Assistance	N/A	11.307	\$1,631,669
U.S. ARMY CORPS OF ENGINEERS			
Direct Assistance			
U.S. Army Corps of Engineers: Section 594 Environmental/Infrastructure Program	N/A	12.XXX	\$83,140
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-10-2BP-1	14.228	96,030
Community Housing Improvement Program	A-C-09-123-1	14.228	141,553
CDBG Revolving Loan Fund		14.228	<u>108,500</u>
Total Community Development Block Grants			346,083
Home Investment Partnerships Program	A-C-09-123-2	14.239	<u>131,147</u>
Total U.S. Department of Housing and Urban Development			<u>477,230</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Assistance			
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	N/A	16.804	<u>4,167</u>
Total Federal Awards Expenditures			<u><u>\$2,196,206</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, 2011**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

These loans are collateralized by mortgages on the property, business assets to include equipment, inventory and receivables, and personal assets. At December 31, 2011, the gross amounts of loans outstanding under this program were \$299,366. A court judgment has been filed on a delinquent amount due of \$21,818.

Activity in the CDBG revolving loan fund during 2011 is as follows:

Beginning loans receivable balance as of January 1, 2011	\$ 318,530
Loan principal repaid	<u>19,164</u>
Ending loans receivable balance as of December 31, 2011	<u>\$ 299,366</u>
Cash balance on hand in the revolving loan fund as of December 31, 2011	\$ 159,944

NOTE C – MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fremont, Sandusky County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 20, 2012, wherein we noted the City adopted Government Accounting Standards Board Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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 deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-001 to be a significant deficiency. 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.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-002.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 20, 2012.

We intend this report solely for the information and use of management, the audit committee, City Council, federal awarding agencies and pass-through entities, and others within the City. We intend it for no one other than these specified parties.

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

September 20, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' 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:

Compliance

We have audited the compliance of the City of Fremont, Sandusky County, Ohio (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City's major federal programs for the year ended December 31, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the City's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to 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 that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with these requirements.

In our opinion, the City of Fremont complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining 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 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

Dave Yost
Auditor of State

September 20, 2012

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA #11.307 – ARRA - Economic Adjustment Assistance, CFDA #14.228 – Community Development Block Grants State Programs.
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2011-001

Significant Deficiency

Financial Reporting

As a result of the audit procedures performed, errors were noted in the financial statements that required material audit adjustments.

The net assets for the debt service (\$307,409) and capital projects funds (\$803,300) were classified as unrestricted when they should have been reported as restricted net assets. Two grants were classified in program revenues as capital grants and contributions offsetting transportation expense line that should have been offsetting community environment (\$839,695). Cash payments for contractual services (\$1,125,233) on the statement of cash flows were improperly recorded as cash payments for materials and supplies inventory.

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

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

FINDING NUMBER 2011-002

Noncompliance Citation

Ohio Revised Code, § 2921.42(A) (1), prohibits a public official from authorizing, or employing the authority or influence of the public official's office to secure authorization of any public contract in which the public official, or any of the public official's business associates has an interest. **Ohio Revised Code, § 2921.42(A)(4)**, prohibits a public official from having an interest in the profits or benefits of a public contract entered into by or for the use of political subdivision or governmental agency or instrumentality in which the public official is connected.

Ohio Revised Code, § 102.03(D), states no public official or employee shall use or authorize the use of the authority or influence of the office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

Marc Glotzbecker, served as the Parks and Recreation Director from February 8, 2004 until March 2, 2012, preceding his appointment to Safety Service Director. Additionally Mr. Glotzbecker is also a member and Secretary of the Fremont Elite Runners Club. During fiscal years 2011 and 2012, Mr. Glotzbecker, while serving as the Parks Recreation Director, authorized eleven disbursements of City funds totaling \$7,320. These disbursements were for purchases related to the Fremont Elite Runners Club and consisted of items such as sponsorships for races held within the City, and trophies, t-shirts and hats distributed to race participants.

**FINDING NUMBER 2011-002
(Continued)**

City employees or officials should not authorize any disbursements to organizations with which they have a direct or indirect interest. The City should consider implementing procedures through which public officials disclose organizations with which they are affiliated and utilize those disclosures to monitor authorizations for potential affiliated organizations to ensure public officials are not authorizing transactions that would be prohibited by the preceding Ohio Revised Code section.

This matter will be referred to the Ohio Ethics Commission.

Officials' Response:

We did not receive a response from the Officials to the findings reported above.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Material Weakness due to errors in financial reporting.	No	Not corrected; Repeated as Finding #2011-001 in this report.
2010-002	Noncompliance Citation with OMB Circular A-133 §.320, failure to timely complete single audit.	Yes	

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Dave Yost • Auditor of State

CITY OF FREMONT

SANDUSKY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 4, 2012**