



Dave Yost • Auditor of State

**CITY OF FREMONT
SANDUSKY COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Independent Accountants' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 21 |
| Statement of Activities..... | 22 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds..... | 24 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities | 25 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 26 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 27 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund..... | 28 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – Municipal Income Tax Fund..... | 29 |
| Statement of Net Assets - Proprietary Funds | 30 |
| Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds..... | 31 |
| Statement of Cash Flows - Proprietary Funds | 32 |
| Statement of Fiduciary Net Assets - Fiduciary Fund | 34 |
| Notes to the Basic Financial Statements | 35 |
| Federal Awards Expenditures Schedule..... | 67 |
| Notes to the Federal Awards Expenditures Schedule | 68 |
| Independent Accountants' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i> | 69 |
| 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 | 71 |
| Schedule of Findings..... | 73 |
| Corrective Action Plan..... | 75 |

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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 City of Fremont, Sandusky County, Ohio (the City), as of and for the year ended December 31, 2010, 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 City of Fremont, Sandusky County, Ohio, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and Municipal Income Tax Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2011, 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 federal awards expenditures 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

November 21, 2011

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
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, 2010. 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 2010 are as follows:

- The total net assets of the City increased \$5,941,076 or 7.30% from 2009. Net assets of governmental activities decreased \$809,160 or 2.39% from 2009 and net assets of business-type activities increased \$6,750,236 or 14.19% over 2009.
- General revenues accounted for \$10,642,895 or 81.40% of total governmental activities revenue. Program specific revenues accounted for \$2,431,477 or 18.60% of total governmental activities revenue.
- The City had \$13,121,836 in expenses related to governmental activities; \$2,431,477 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$10,690,359 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$10,642,895.
- The general fund had revenues and other financing sources of \$8,035,470 in 2010. This represents a decrease of \$340,067 or 4.06% from 2009. The expenditures and other financing uses of the general fund, which totaled \$8,763,572 in 2010, increased \$533,789 or 6.49% from 2009. The net decrease in fund balance for the general fund was \$728,102 or 29.90%.
- The municipal income tax fund had revenues of \$7,759,220 in 2010. The expenditures of the municipal income tax fund totaled \$568,012 in 2010. The municipal income tax fund had transfers out to other funds in the amount of \$7,042,000. The net increase in fund balance for the municipal income tax fund was \$149,208.
- Net assets for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2010 by \$6,750,236. This increase in net assets was due primarily to capital grants received during the year.
- In the general fund, actual revenues and other financing sources were \$125,967 lower than the final budget revenues and other financing sources, and actual expenditures and other financing uses were \$229,102 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 \$641,550 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, 2010
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 2010?" 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, 2010
UNAUDITED
(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 municipal income tax fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2010 and 2009:

| | Net Assets | | | | | |
|---|------------------------------------|----------------------|-------------------------------------|----------------------|----------------------|----------------------|
| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | 2010 | 2009 |
| | 2010 | 2009 | 2010 | 2009 | Total | Total |
| <u>Assets</u> | | | | | | |
| Current and other assets | \$ 16,635,170 | \$ 16,575,875 | \$ 10,292,774 | \$ 7,692,313 | \$ 26,927,944 | \$ 24,268,188 |
| Capital assets | <u>22,326,120</u> | <u>23,427,739</u> | <u>55,317,481</u> | <u>49,258,743</u> | <u>77,643,601</u> | <u>72,686,482</u> |
| Total assets | <u>38,961,290</u> | <u>40,003,614</u> | <u>65,610,255</u> | <u>56,951,056</u> | <u>104,571,545</u> | <u>96,954,670</u> |
| <u>Liabilities</u> | | | | | | |
| Long-term liabilities outstanding | 4,298,582 | 4,601,665 | 10,515,589 | 8,965,153 | 14,814,171 | 13,566,818 |
| Other liabilities | <u>1,632,245</u> | <u>1,562,326</u> | <u>758,864</u> | <u>400,337</u> | <u>2,391,109</u> | <u>1,962,663</u> |
| Total liabilities | <u>5,930,827</u> | <u>6,163,991</u> | <u>11,274,453</u> | <u>9,365,490</u> | <u>17,205,280</u> | <u>15,529,481</u> |
| <u>Net Assets</u> | | | | | | |
| Invested in capital assets, net of related debt | 19,598,099 | 20,428,984 | 45,174,955 | 40,651,927 | 64,773,054 | 61,080,911 |
| Restricted | 4,355,831 | 3,225,598 | | | 4,355,831 | 3,225,598 |
| Unrestricted | <u>9,076,533</u> | <u>10,185,041</u> | <u>9,160,847</u> | <u>6,933,639</u> | <u>18,237,380</u> | <u>17,118,680</u> |
| Total net assets | <u>\$ 33,030,463</u> | <u>\$ 33,839,623</u> | <u>\$ 54,335,802</u> | <u>\$ 47,585,566</u> | <u>\$ 87,366,265</u> | <u>\$ 81,425,189</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2010, the City's assets exceeded liabilities by \$87,366,265. At year-end, net assets were \$33,030,463 and \$54,335,802 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 74.25% 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, 2010, were \$19,598,099 and \$45,174,955 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, 2010, 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, \$4,355,831 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 \$9,076,533 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

The table below shows the changes in net assets for fiscal years 2010 and 2009.

| | Change in Net Assets | | | | | |
|---|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|----------------------|----------------------|
| | Governmental Activities 2010 | Governmental Activities 2009 | Business-type Activities 2010 | Business-type Activities 2009 | 2010 Total | 2009 Total |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 928,668 | \$ 949,113 | \$ 10,261,895 | \$ 7,240,652 | \$ 11,190,563 | \$ 8,189,765 |
| Operating grants and contributions | 1,156,043 | 1,199,757 | | 19,600 | 1,156,043 | 1,219,357 |
| Capital grants and contributions | <u>346,766</u> | <u>288,773</u> | <u>4,696,138</u> | <u>4,175,260</u> | <u>5,042,904</u> | <u>4,464,033</u> |
| Total program revenues | <u>2,431,477</u> | <u>2,437,643</u> | <u>14,958,033</u> | <u>11,435,512</u> | <u>17,389,510</u> | <u>13,873,155</u> |
| General revenues: | | | | | | |
| Property taxes | 1,091,673 | 1,163,604 | | | 1,091,673 | 1,163,604 |
| Income taxes | 8,077,038 | 8,089,579 | | | 8,077,038 | 8,089,579 |
| Unrestricted grants and entitlements | 1,169,334 | 1,264,926 | | | 1,169,334 | 1,264,926 |
| Investment earnings | 102,822 | 149,554 | 1,208 | 7,389 | 104,030 | 156,943 |
| Miscellaneous | <u>202,028</u> | <u>367,094</u> | <u>9,907</u> | | <u>211,935</u> | <u>367,094</u> |
| Total general revenues | <u>10,642,895</u> | <u>11,034,757</u> | <u>11,115</u> | <u>7,389</u> | <u>10,654,010</u> | <u>11,042,146</u> |
| Total revenues | <u>13,074,372</u> | <u>13,472,400</u> | <u>14,969,148</u> | <u>11,442,901</u> | <u>28,043,520</u> | <u>24,915,301</u> |
| Expenses: | | | | | | |
| General government | 2,547,877 | 2,399,122 | | | 2,547,877 | 2,399,122 |
| Security of persons and property | 6,158,835 | 6,022,092 | | | 6,158,835 | 6,022,092 |
| Public health and welfare | 17,034 | 10,759 | | | 17,034 | 10,759 |
| Transportation | 1,745,870 | 1,697,722 | | | 1,745,870 | 1,697,722 |
| Community environment | 442,516 | 539,979 | | | 442,516 | 539,979 |
| Leisure time activity | 1,922,529 | 2,005,079 | | | 1,922,529 | 2,005,079 |
| Economic development | 144,373 | 132,527 | | | 144,373 | 132,527 |
| Interest and fiscal charges | 142,802 | 99,182 | | | 142,802 | 99,182 |
| Water | | | 5,341,092 | 4,398,278 | 5,341,092 | 4,398,278 |
| Sewer | | | <u>3,639,516</u> | <u>3,586,209</u> | <u>3,639,516</u> | <u>3,586,209</u> |
| Total expenses | <u>13,121,836</u> | <u>12,906,462</u> | <u>8,980,608</u> | <u>7,984,487</u> | <u>22,102,444</u> | <u>20,890,949</u> |
| Increase (Decrease) in net assets before transfers | (47,464) | 565,938 | 5,988,540 | 3,458,414 | 5,941,076 | 4,024,352 |
| Transfers | <u>(761,696)</u> | <u>(133,854)</u> | <u>761,696</u> | <u>133,854</u> | | |
| Increase (Decrease) in net assets | (809,160) | 432,084 | 6,750,236 | 3,592,268 | 5,941,076 | 4,024,352 |
| Net assets at beginning of year | <u>33,839,623</u> | <u>33,407,539</u> | <u>47,585,566</u> | <u>43,993,298</u> | <u>81,425,189</u> | <u>77,400,837</u> |
| Net assets at end of year | <u>\$ 33,030,463</u> | <u>\$ 33,839,623</u> | <u>\$ 54,335,802</u> | <u>\$ 47,585,566</u> | <u>\$ 87,366,265</u> | <u>\$ 81,425,189</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

Governmental Activities

Governmental activities net assets decreased \$809,160 in 2010. This decrease is a result of increased expenses and transfers to the business-type activities.

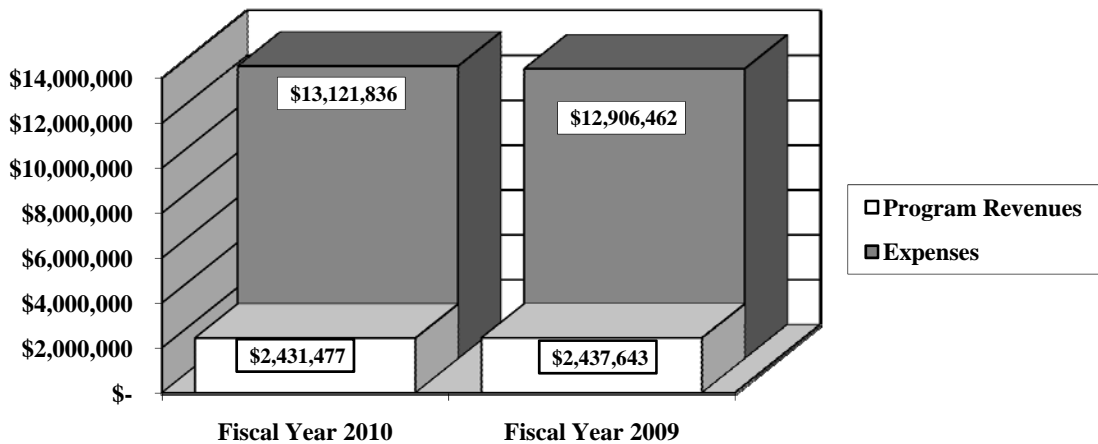
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$6,158,835 of the total expenses of the City. These expenses were partially funded by \$48,764 in direct charges to users of the services. General government expenses totaled \$2,547,877. General government expenses were partially funded by \$382,708 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$1,156,043 in operating grants and contributions and \$346,766 in capital grants and contributions. These revenues are restricted to a particular program or purpose. The total capital grants and contributions, \$346,766 subsidized transportation programs. Of the total operating grants and contributions, \$805,859 subsidized transportation programs, and \$25,905 subsidized security of persons and property activities.

General revenues totaled \$10,642,895, and amounted to 81.40% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$9,168,711. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue making up \$1,169,334.

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

Governmental Activities – Program Revenues vs. Total Expenses



**CITY OF FREMONT
SANDUSKY COUNTY**

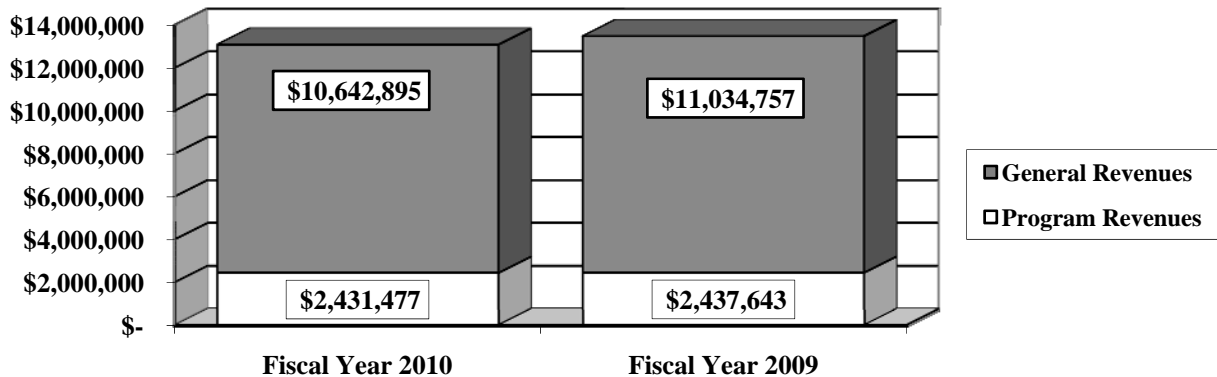
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

Governmental Activities

| | Total Cost of Services 2010 | Net Cost of Services 2010 | Total Cost of Services 2009 | Net Cost of Services 2009 |
|----------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Program Expenses: | | | | |
| General government | \$ 2,547,877 | \$ 2,152,332 | \$ 2,399,122 | \$ 1,951,766 |
| Security of persons and property | 6,158,835 | 6,084,166 | 6,022,092 | 5,977,826 |
| Public health and welfare | 17,034 | 17,034 | 10,759 | 10,759 |
| Transportation | 1,745,870 | 534,424 | 1,697,722 | 599,537 |
| Community environment | 442,516 | 131,074 | 539,979 | 142,695 |
| Leisure time activity | 1,922,529 | 1,484,354 | 2,005,079 | 1,554,527 |
| Economic development | 144,373 | 144,173 | 132,527 | 132,527 |
| Interest and fiscal charges | 142,802 | 142,802 | 99,182 | 99,182 |
| Total | \$ 13,121,836 | \$ 10,690,359 | \$ 12,906,462 | \$ 10,468,819 |

The dependence upon general revenues for governmental activities is apparent, with 81.47% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



Business-type Activities

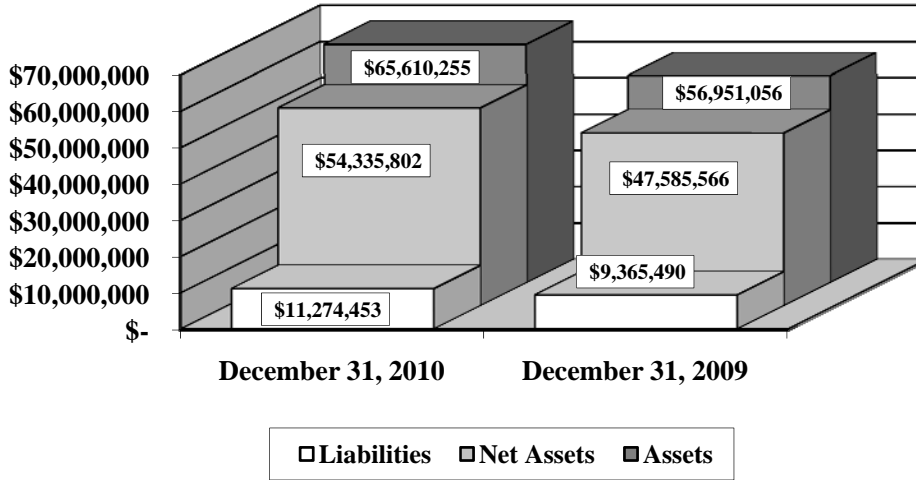
Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$14,958,033, general revenues of \$11,115, transfers in of \$761,696 and expenses of \$8,980,608 for 2010.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

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 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 \$11,786,771 which is \$417,710 below last year's total of \$12,204,481. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2010 for all major and nonmajor governmental funds.

| | Fund Balances 12/31/10 | Fund Balances 12/31/09 | Increase (Decrease) |
|-----------------------------------|---------------------------|---------------------------|------------------------|
| Major funds: | | | |
| General | \$ 1,707,668 | \$ 2,435,770 | \$ (728,102) |
| Municipal income tax | 3,766,505 | 3,617,297 | 149,208 |
| Other nonmajor governmental funds | 6,312,598 | 6,151,414 | 161,184 |
| Total | \$ 11,786,771 | \$ 12,204,481 | \$ (417,710) |

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

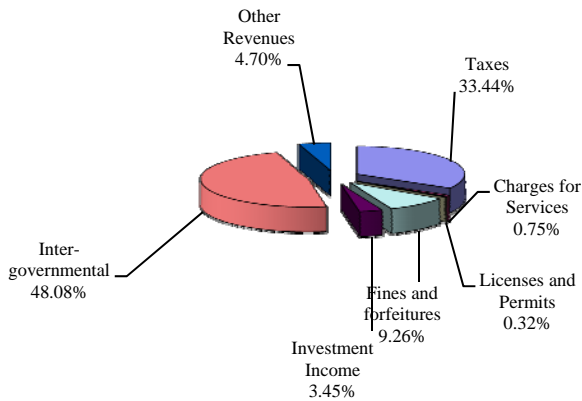
General Fund

The City's general fund balance decreased \$728,102, primarily due to a decrease in revenues. The table that follows assists in illustrating the revenues of the general fund.

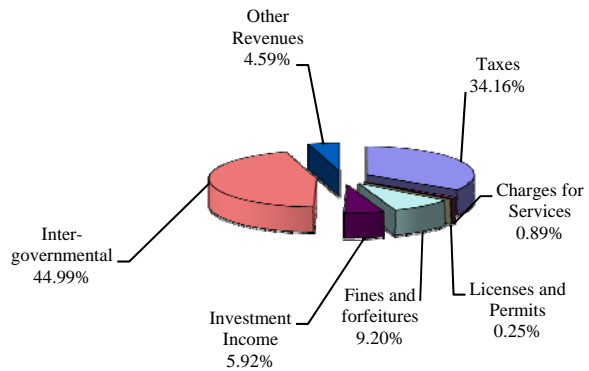
| | 2010 <u>Amount</u> | 2009 <u>Amount</u> | Percentage <u>Change</u> |
|-----------------------|----------------------------|----------------------------|-----------------------------|
| Revenues | | | |
| Taxes | \$ 844,499 | \$ 978,988 | (13.74) % |
| Charges for services | 18,985 | 25,531 | (25.64) % |
| Licenses and permits | 8,152 | 7,283 | 11.93 % |
| Fines and forfeitures | 233,971 | 263,518 | (11.21) % |
| Intergovernmental | 1,213,885 | 1,289,243 | (5.85) % |
| Investment income | 87,163 | 169,509 | (48.58) % |
| Other | 118,815 | 131,465 | (9.62) % |
| Total | <u>\$ 2,525,470</u> | <u>\$ 2,865,537</u> | (11.87) % |

Tax revenue represents 33.44% of all general fund revenue. Tax revenue decreased by 13.74% from the prior year. The decrease in taxes revenue is due to the continued phase out of tangible personal property. The decrease in investment income is due to lower interest rates on the City's investment portfolio. Intergovernmental revenues decreased 5.85% due to the City getting less state and federal grants. The decrease in fines and forfeitures is due to a decrease of court fines and fees. All other revenue remained comparable to 2009.

Revenues – Fiscal Year 2010



Revenues – Fiscal Year 2009



**CITY OF FREMONT
SANDUSKY COUNTY**

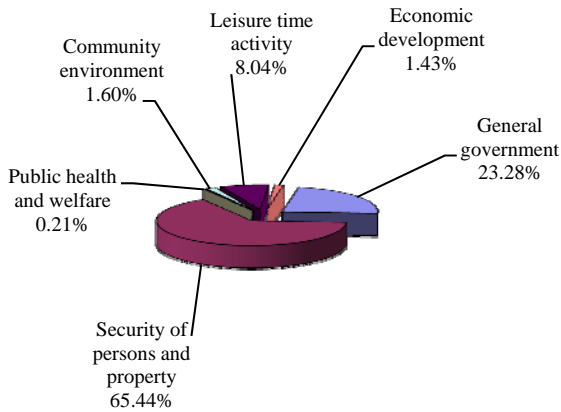
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

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

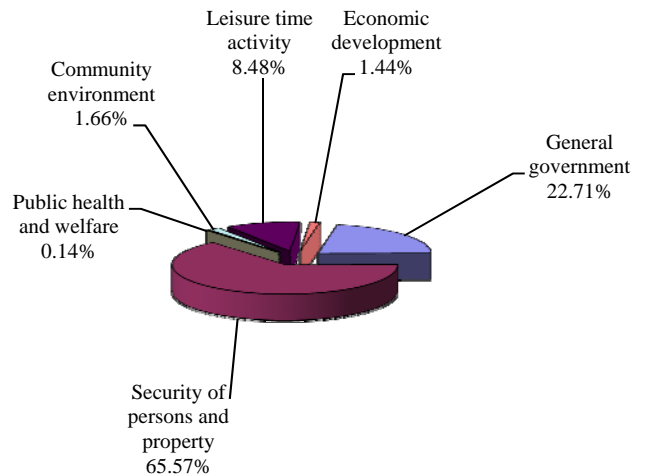
| Expenditures | 2010 Amount | 2009 Amount | Percentage Change |
|----------------------------------|---------------------|---------------------|----------------------|
| General government | \$ 1,781,537 | \$ 1,730,674 | 2.94 % |
| Security of persons and property | 5,008,203 | 4,996,048 | 0.24 % |
| Public health and welfare | 16,305 | 10,615 | 53.60 % |
| Community environment | 122,554 | 126,374 | (3.02) % |
| Leisure time activity | 615,718 | 646,320 | (4.73) % |
| Economic development | 109,255 | 109,752 | (0.45) % |
| Total | \$ 7,653,572 | \$ 7,619,783 | 0.44 % |

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 2010.

Expenditures - Fiscal Year 2010



Expenditures - Fiscal Year 2009



Municipal Income Tax Fund

The municipal income tax fund had revenues of \$7,759,220 in 2010. The expenditures of the municipal income tax fund totaled \$568,012 in 2010. The municipal income tax fund had transfers out to other funds in the amount of \$7,042,000. The net increase in fund balance for the municipal income tax fund was \$149,208.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

Budgeting Highlights

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

Budgetary information is presented for the general fund and municipal income tax fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures and other financing uses, which increased \$641,550 from \$8,375,866 to \$9,017,416. Actual revenues and other financing sources of \$8,075,384 were less than final budgeted revenues and other financing sources by \$125,967. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$229,102 lower than the final budgeted amounts.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2010, the City had \$77,643,601 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, machinery and equipment, infrastructure and construction in progress (CIP). Of this total, \$22,326,120 was reported in governmental activities and \$55,317,481 was reported in business-type activities. See Note 10 for further description of capital assets. The following table shows fiscal 2010 balances compared to 2009:

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

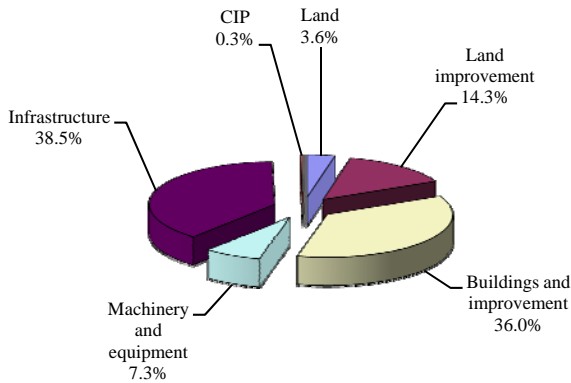
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|----------------------------|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Land | \$ 803,959 | \$ 803,959 | \$ 903,988 | \$ 898,891 | \$ 1,707,947 | \$ 1,702,850 |
| Land improvements | 3,189,393 | 3,350,218 | 1,285,951 | 1,335,415 | 4,475,344 | 4,685,633 |
| Buildings and improvements | 8,029,518 | 8,378,141 | 21,794,783 | 22,812,318 | 29,824,301 | 31,190,459 |
| Machinery and equipment | 1,637,519 | 1,753,431 | 2,631,292 | 2,880,535 | 4,268,811 | 4,633,966 |
| Infrastructure | 8,599,087 | 9,110,651 | 15,868,370 | 15,794,933 | 24,467,457 | 24,905,584 |
| Construction in progress | 66,644 | 31,339 | 12,833,097 | 5,536,651 | 12,899,741 | 5,567,990 |
| Totals | <u>\$ 22,326,120</u> | <u>\$ 23,427,739</u> | <u>\$ 55,317,481</u> | <u>\$ 49,258,743</u> | <u>\$ 77,643,601</u> | <u>\$ 72,686,482</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

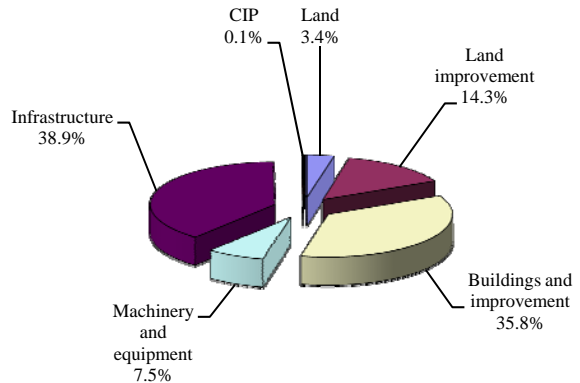
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

The following graphs show the breakdown of governmental capital assets by category for 2010 and 2009.

Capital Assets - Governmental Activities 2010



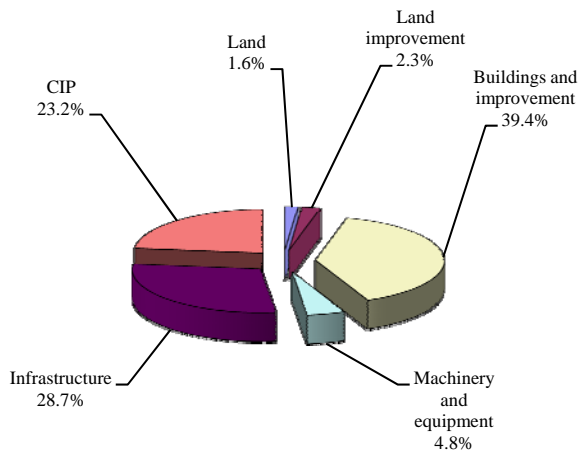
Capital Assets - Governmental Activities 2009



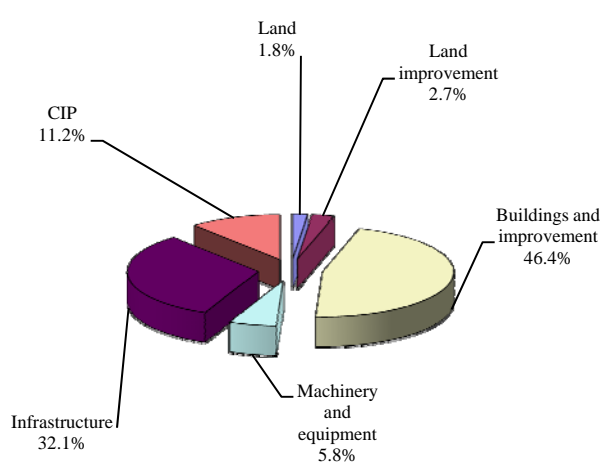
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 38.5% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2010 and 2009.

Capital Assets - Business-Type Activities 2010



Capital Assets - Business-Type Activities 2009



**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

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 28.7% of the City's total business-type capital assets.

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, 2010 and 2009:

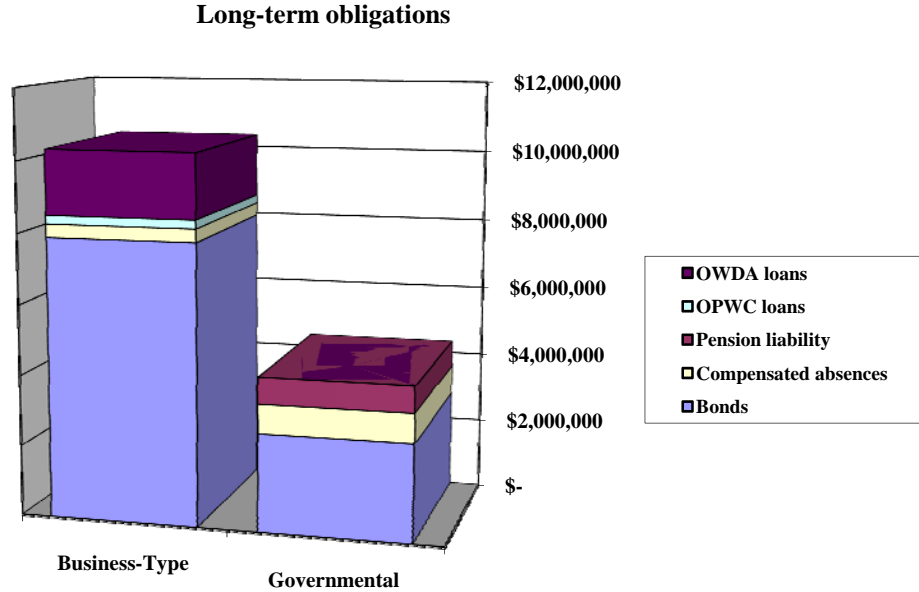
| | Governmental Activities | |
|------------------------------------|----------------------------|----------------------------|
| | <u>2010</u> | <u>2009</u> |
| Compensated absences | \$ 829,024 | \$ 844,376 |
| General obligation bonds | 2,765,000 | 3,040,000 |
| Pension liability | <u>741,537</u> | <u>758,534</u> |
| Total long-term obligations | <u>\$ 4,335,561</u> | <u>\$ 4,642,910</u> |

| | Business-type Activities | |
|------------------------------------|-----------------------------|----------------------------|
| | <u>2010</u> | <u>2009</u> |
| General obligation bonds | \$ 7,925,000 | \$ 8,345,000 |
| OPWC loans | 242,592 | 261,816 |
| OWDA loans | 1,974,934 | |
| Compensated absences | <u>373,063</u> | <u>358,337</u> |
| Total long-term obligations | <u>\$ 10,515,589</u> | <u>\$ 8,965,153</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

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



Economic Conditions and Outlook

Activities for manufacturing projects have increased substantially this past year giving hope for a positive turn around for the City of Fremont. Unemployment rates have dropped below double digit figures for the first time since January 2009. Although the rebound from the recession will not happen overnight, we are very confident we will have positive gains starting in the first quarter of 2011.

Focusing on the retention of local businesses and assisting with any expansion plans remains a priority. There are companies struggling to different degrees, but many have reported increased sales and profits. One fortunate business owner recently said that "if there was a recession last year, I hope we have another one next year."

Besides our industrial base surviving 2010 as well as it did, the most encouraging news is the incredibly successful year Downtown Fremont had. Strong Downtowns are important for a city's economy. Downtowns represent the image of the community, which is important to attract businesses, residents and visitors. The City of Fremont has put a lot of effort into the redevelopment of Downtown over the years and it is paying dividends. You often hear about the memories people have from the time they spent at events or did their shopping in Downtown. Those memories are continuing to be made today.

Sierra Lobo, Inc. has over 17 years of aerospace experience and a staff of over 400 employees that design, construct and operate research and development facilities throughout the country. The company continues to win major NASA contracts with the most recent giving them the responsibility for all the Test Facilities Operations, Maintenance and Engineering (TFOME) at NASA Plum Brook in Sandusky, Ohio. This 6,400 acre testing and research installation is home to some of the world's most highly advanced space environment simulation facilities.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

Another major contract Sierra Lobo secured in 2010 was a \$40 million Air Force project that covers a four-month period. This contract began October 1, 2010 and has four one-year renewal options. The Air Force Research Laboratory's air vehicles directorate awarded the contract to provide research and development structural test services at Wright-Patterson Air Force Base. With facilities located throughout the country, Sierra Lobo chose to expand its corporate office in Fremont. A groundbreaking ceremony for the construction of a 3,500 sq. ft. business office took place on April 19, 2010 in Pinnacle Office Park. The ribbon cutting ceremony to officially open the new office complex was held on September 20, 2010.

The City of Fremont provided Sierra Lobo an incentive for keeping the project in Fremont by granting them real property tax abatement under the Community Reinvestment Area program.

Fremont's Economic Development Office has placed an emphasis on finding alternative energy development opportunities. Several international manufacturers of wind and solar equipment have visited Fremont and the interest by companies to develop wind and solar fields has recently peaked. In 2010, two companies investigated the potential of constructing solar fields in our community. One such company, CME, worked with Fremont's Office of Economic Development to locate sites for solar field developments in and around the City. Two sites have been identified and the due diligence process has begun.

CME is a development company that provides cutting-edge processes along with financial structuring and contract expertise for clean, reliable and low-cost energy projects. The \$345 million Fremont Energy Center project was a result of CME working with Fremont's Office of Economic Development and City Administration. CME also has a proven track record with projects in Latin America, North Africa, Asia and the United States. Since the federal and state governments have mandated electric generation companies must include renewable generation as a certain percentage of their energy production profile, companies like CME are looking for communities to partner with. Governments will place stiff fines on electric generation companies who do not comply. Additionally, the government is offering substantial tax benefits as an incentive to lure development companies like CME to help with this initiative. These policies should continue to spur development opportunities for the next several years.

Although the question of when the Fremont Energy Center will be completed remains unanswered, many positive things have occurred since the project began. Most notably is the tax abatement agreement that was negotiated between the City of Fremont and Calpine Corporation. In lieu of paying taxes, Calpine was required to make ten annual cash donations to the City of Fremont, Fremont School District and Vanguard Career Center. When FirstEnergy Corporation purchased the partially completed electric generation plant from Calpine in January 2008, they committed to continue making the annual cash donations. A total of six payments have been made resulting in \$4,920,000 in contributions. The City has received \$720,000 which it shares equally with Sandusky Township as part of a revenue sharing agreement, Vanguard Career Center has received \$144,000 and the Fremont School District has received \$4,056,000.

FirstEnergy initially planned to complete the construction of the plant by the end of 2010. It was then announced in December 2008, that the plant's construction schedule would be extended through 2012 in response to the slowing economy and lower electricity demand. A change of events prompted FirstEnergy to announce in September 2009 that they will complete the construction of Fremont Energy Center by the end of 2010 as originally planned. Over 400 skilled craftsmen were hired back to the site and income tax revenues increased substantially for the City of Fremont.

As the plant went through testing and came very close to being completed in late 2010, FirstEnergy pulled the plug on the construction again. New tax laws extended the deadline when FirstEnergy can apply for a large tax savings. Because the region's economy is still sluggish and the demand for electricity has not rebounded, FirstEnergy decided to delay the completion of the plant yet again.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

Construction of the Women's Diagnostic Center began in January and was built in the existing hospital space on the north side of the building near the cashier's office, an area that was previously used to store medical records. The 1,200 sq. ft. space was completely renovated at a cost of \$600,000. The center features digital mammography, a DEXA bone density scanner and ultrasonic capabilities.

Terra Community College held a ribbon cutting ceremony on October 8, 2010 for the newly constructed Skilled Trades Center. The \$3.5 million project began with a ground breaking ceremony on September 14, 2009. The 23,225 sq. ft. building will house programs in welding and HVAC.

The construction of the Skilled Trades Center will open up room in the industrial technologies building to expand the music, arts and allied health programs. This is the first major development at Terra since 1997.

Hal Hawk, CEO and President of Crown Battery, credits the community's educated and motivated workforce as a valuable resource that allows him to continue to expand locally. Keeping existing jobs and increasing new job opportunities is a priority for Mr. Hawk. Crown Battery is a prime example why the retention and expansion efforts of local companies needs to continue to be a priority for the City's Administration.

Keeping growth local has been a key to Crown Battery's success. The company's most recent expansion was the purchase of the former Bowlus Trucking Company property in 2010 for warehousing purposes.

Two years ago, The Fremont Company completed a major building and infrastructure improvement project that created new jobs. In order for this to occur, the City of Fremont completed a \$426,407 project involving the separation and upgrading of storm and sewer lines on Liberty and Milton Streets. A \$100,000 grant from the Ohio Department of Development's Roadway (629) Development Fund and a \$362,407 grant from Fremont's Revolving Loan Fund were used to pay for the upgrades. Liberty Street was then resurfaced under the street paving program. All of this work was necessary for The Fremont Company to continue operating in Fremont. The improvements that were made in 2008 were expected to result in an expansion of the facility in the near future.

On July 7, 2010, B&W Welding employees were making repairs to the roof over The Fremont Company's cooking room. The roof suddenly collapsed killing B&W Welding employee Nate Kern and injuring three others. This unfortunate event happened just before peak sauerkraut production season. Employees of The Fremont Company were sent home and the future of the food production company was uncertain. There was speculation that The Fremont Company may close its doors.

To the credit of The Fremont Company's administration, employees and cabbage producers, the company re-opened in time to take in cabbage to produce sauerkraut. Although some of the first harvested cabbage crop could not be used, and concessions had to be made, The Fremont Company bounced back from a tragic event to continue its 105 year history.

In response to consumer demand, Heinz announced on February 4, 2010 a new ketchup innovation called the Heinz Dip & Squeeze. This dual-function ketchup package gives ketchup lovers the ability to either peel back the lid for easy dipping, or tear off the tip to squeeze the ketchup onto foods. The new package holds three times as much Ketchup as the traditional packet.

Heinz invested over \$6 million in 2010 to bring one of the production lines to the Fremont plant. Ketchup production at this facility continues to grow as Fremont remains the home of its flagship product.

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

The City of Fremont continues its commitment to use the \$2 million Clean Ohio Revitalization Fund grant to make the former Clauss Cutlery property a redevelopment-ready site by addressing the environmental impacts. Additionally, Alco Industries, Inc. who owned the property before it was acquired by the City, continues to provide matching funds for the cleanup. The total project cost is estimated to be \$3,301,313.

Once the remediation is complete, the City hopes to return this vacant, underutilized industrial property to productive economic use, bringing jobs to the area and in turn increasing income tax revenues, not to mention the environmental and social improvements that would result simply from cleaning up the site. The City ultimately wants to market the property to commercial, office and light industrial end users.

Clean up activities at the site are going well. To date, several tasks have been completed including:

- Demolition of the plating area and removal/disposal of associated contaminated soil
- Removal of asbestos-containing materials from and demolition of two unusable buildings
- Removal of two abandoned underground storage tanks
- Spreading and seeding of topsoil where the two buildings were demolished

Activities to be completed in 2011 include:

- Trenching for the installation of a groundwater collection system to intercept on-site groundwater for off-site treatment at the City's treatment plant
- Treating on-site groundwater with soybean oil to stimulate biodegradation.

Injecting food-grade emulsified soybean oil directly into contaminated groundwater and saturated soils is a proven groundwater treatment method. Sodium Lactate in the soybean oil stimulates the growth of natural microbes that biologically breakdown (dechlorinate) the contaminants. The white milky substance (soybean oil) is a harmless product that will significantly reduce the groundwater contaminants.

Clean up activities are scheduled to be completed by June 2011. However, long-term groundwater and sewer monitoring will continue through June 2015.

The second annual Once Upon a Christmas event was held in Downtown Fremont December 2 - 5, 2010. Live entertainment, activities for all ages and shopping specials were held every day during the event. The Festival of Lights Parade went through Downtown on December 4 drawing hundreds of spectators who also participated in the other activities.

Spring and fall issues of DowntownNews were printed and distributed in 2010. The newsletter contains a combination of exclusive offers and special events information. The bi-annual publication is distributed by local downtown merchants, emailed to interested shoppers and placed in waiting rooms at doctor offices and lobbies of businesses throughout town.

Businesses New to Downtown in 2010

- Amish Country Deli and More opened at 112 S. Front Street featuring a premium lunch takeout menu and quality products from the heart of the Amish Country
- Bloom by Jilly Gray opened at 309 Garrison Street and offers a full service of flower products
- WAMH Design LLC opened at 108 S. Front Street providing design and consulting services for web and print media
- A Cut Above Barber Shop opened at 121 S. Front Street on March 10, 2010
- A Cut Above Beauty Salon opened later at 123 S. Front Street
- Dr. Edna Jean opened a podiatrist office on Garrison Street
- CG Insurance Agency opened at 118 N. Arch Street
- Buchele's K-9 Service opened at 116 N. Arch Street

**CITY OF FREMONT
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED
(Continued)**

The 3/50 Project received a boost in 2010 when the Fremont Ministry Association took on a project to promote the concept to its congregations. This project encourages consumers to identify three independently owned businesses they would miss if they disappeared, and then spend \$50 each month at those businesses. Additionally, the Association distributed cans to Downtown businesses where a customer can deposit a coin as a sign of understanding the program and supporting it. Results of the project will be forthcoming in 2011.

Roger Kuns was nearing the end of a successful military career when he decided to return to Fremont to purchase a business and raise his family. He approached Fremont's Revolving Loan Fund Committee for assistance with the purchase of the Northcoast Security Center business at 1400 W. State Street. A \$50,000 loan was approved on March 30, 2010 and Roger has been growing the locksmith and security business since that time.

Filling the vacancy left by the closing of Ryan's Steakhouse on SR 53, No. 1 Hibachi Grill and Buffet opened on November 3, 2010. The Chinese restaurant quickly became a local favorite and draws many local and transient customers.

For several years, Kroger has been working with the Fremont Economic Development Office and City Administration to expand its presence in Fremont. Initial plans were to expand the east side grocery store and build a gas station on or near that location.

After several scenarios were studied, a new plan was presented to expand the west side store and then remodel the east side store. Kroger would demolish the former Great Scot building along with several adjoining storefronts in Potter Village Shopping Center and then build a larger Kroger store in its place. A new Kroger gas station would be built on the northeast corner of the Potter Village Shopping Center parking lot. During the summer of 2010, this expansion plan had been put on hold but the east side store did get a face lift.

Most recently, Kroger has contracted with the owner of the BP gas station on the northwest corner of State St. and Fifth St. to clear all the structures off the property. That work has been completed and environmental work is being done at this time. Kroger has not taken ownership of the property as of December 31, 2010.

Great Scot closed its west side store in Potter Village Shopping Center on March 26, 2010. They had 7 full-time and 12 part-time employees. The east side location remains open and is doing well.

Ryan's Steakhouse closed its doors on SR 53 in 2010 without warning. The parent company filed for bankruptcy on January 22, 2008 resulting in chain stores losing their leases.

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, 2010

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| Assets: | | | |
| Equity in pooled cash and investments. | \$ 10,375,697 | \$ 7,956,135 | \$ 18,331,832 |
| Receivables (net of allowances for uncollectibles): | | | |
| Income taxes | 3,943,138 | | 3,943,138 |
| Property and other local taxes. | 870,129 | | 870,129 |
| Accounts | 39,898 | 1,690,948 | 1,730,846 |
| Loans | 318,530 | | 318,530 |
| Accrued interest. | 16,381 | | 16,381 |
| Due from other governments | 900,185 | | 900,185 |
| Materials and supplies inventory | 58,761 | 275,504 | 334,265 |
| Deferred bond issue costs | 112,465 | 321,338 | 433,803 |
| Internal balance | (14) | 14 | |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents. | | 48,835 | 48,835 |
| Capital assets: | | | |
| Land and construction in progress | 870,603 | 13,737,085 | 14,607,688 |
| Depreciable capital assets, net | 21,455,517 | 41,580,396 | 63,035,913 |
| Total capital assets, net | <u>22,326,120</u> | <u>55,317,481</u> | <u>77,643,601</u> |
| Total assets. | <u>38,961,290</u> | <u>65,610,255</u> | <u>104,571,545</u> |
| Liabilities: | | | |
| Accounts payable | 76,116 | 126,842 | 202,958 |
| Contracts payable | 134,206 | 402,855 | 537,061 |
| Accrued wages and benefits. | 344,638 | 151,440 | 496,078 |
| Pension obligation payable | 245,687 | 14,127 | 259,814 |
| Due to claimants. | 10,119 | | 10,119 |
| Accrued interest payable. | 31,608 | 14,765 | 46,373 |
| Unearned revenue. | 789,871 | | 789,871 |
| Payable from restricted assets: | | | |
| Refundable deposits. | | 48,835 | 48,835 |
| Long-term liabilities: | | | |
| Due within one year. | 433,100 | 551,604 | 984,704 |
| Due in more than one year | <u>3,865,482</u> | <u>9,963,985</u> | <u>13,829,467</u> |
| Total liabilities. | <u>5,930,827</u> | <u>11,274,453</u> | <u>17,205,280</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 19,598,099 | 45,174,955 | 64,773,054 |
| Restricted for: | | | |
| Debt service. | 274,826 | | 274,826 |
| Transportation projects. | 1,014,208 | | 1,014,208 |
| Police and fire pension. | 941,937 | | 941,937 |
| Revolving loans | 560,041 | | 560,041 |
| Recreation | 214,522 | | 214,522 |
| Other purposes. | 1,350,297 | | 1,350,297 |
| Unrestricted. | <u>9,076,533</u> | <u>9,160,847</u> | <u>18,237,380</u> |
| Total net assets | <u>\$ 33,030,463</u> | <u>\$ 54,335,802</u> | <u>\$ 87,366,265</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

| | Expenses | Program Revenues | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental activities: | | | | |
| General government | \$ 2,547,877 | \$ 382,708 | \$ 12,837 | |
| Security of persons and property | 6,158,835 | 48,764 | 25,905 | |
| Public health and welfare | 17,034 | | | |
| Transportation | 1,745,870 | 58,821 | 805,859 | \$ 346,766 |
| Community environment | 442,516 | | 311,442 | |
| Leisure time activity | 1,922,529 | 438,175 | | |
| Economic development | 144,373 | 200 | | |
| Interest and fiscal charges | 142,802 | | | |
| Total governmental activities | 13,121,836 | 928,668 | 1,156,043 | 346,766 |
| Business-type activities: | | | | |
| Water | 5,341,092 | 4,781,669 | | 4,696,138 |
| Sewer | 3,639,516 | 5,480,226 | | |
| Total business-type activities | 8,980,608 | 10,261,895 | | 4,696,138 |
| Total primary government | \$ 22,102,444 | \$ 11,190,563 | \$ 1,156,043 | \$ 5,042,904 |

General revenues:

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

| Governmental Activities | Business-type Activities | Total |
|------------------------------------|-------------------------------------|----------------------|
| \$ (2,152,332) | | \$ (2,152,332) |
| (6,084,166) | | (6,084,166) |
| (17,034) | | (17,034) |
| (534,424) | | (534,424) |
| (131,074) | | (131,074) |
| (1,484,354) | | (1,484,354) |
| (144,173) | | (144,173) |
| (142,802) | | (142,802) |
| <u>(10,690,359)</u> | | <u>(10,690,359)</u> |
| | \$ 4,136,715 | 4,136,715 |
| | 1,840,710 | 1,840,710 |
| | <u>5,977,425</u> | <u>5,977,425</u> |
| <u>(10,690,359)</u> | <u>5,977,425</u> | <u>(4,712,934)</u> |
| 8,077,038 | | 8,077,038 |
| 913,415 | | 913,415 |
| 89,129 | | 89,129 |
| 89,129 | | 89,129 |
| 1,169,334 | | 1,169,334 |
| 102,822 | 1,208 | 104,030 |
| 202,028 | 9,907 | 211,935 |
| <u>10,642,895</u> | <u>11,115</u> | <u>10,654,010</u> |
| <u>(761,696)</u> | <u>761,696</u> | |
| (809,160) | 6,750,236 | 5,941,076 |
| <u>33,839,623</u> | <u>47,585,566</u> | <u>81,425,189</u> |
| <u>\$ 33,030,463</u> | <u>\$ 54,335,802</u> | <u>\$ 87,366,265</u> |

**CITY OF FREMONT
SANDUSKY COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

| | <u>General</u> | <u>Municipal Income Tax</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---------------------------------|---|---|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents. | \$ 2,153,835 | \$ 2,230,583 | \$ 5,973,614 | \$ 10,358,032 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Income taxes. | | 3,943,138 | | 3,943,138 |
| Property and other local taxes. | 706,989 | | 163,140 | 870,129 |
| Accounts. | 21,819 | | 18,079 | 39,898 |
| Accrued interest. | 16,381 | | | 16,381 |
| Loans | | | 318,530 | 318,530 |
| Due from other governments. | 495,285 | | 404,900 | 900,185 |
| Materials and supplies inventory. | | | 58,761 | 58,761 |
| Total assets | <u>\$ 3,394,309</u> | <u>\$ 6,173,721</u> | <u>\$ 6,937,024</u> | <u>\$ 16,505,054</u> |
| Liabilities: | | | | |
| Accounts payable. | \$ 54,429 | \$ 23 | \$ 21,299 | \$ 75,751 |
| Contracts payable. | | | 134,206 | 134,206 |
| Accrued wages and benefits | 296,248 | 6,648 | 39,173 | 342,069 |
| Compensated absences payable. | 64,632 | 12,280 | | 76,912 |
| Pension obligation payable. | 241,224 | 621 | 3,605 | 245,450 |
| Due to claimants | 10,119 | | | 10,119 |
| Deferred revenue. | 378,218 | 2,387,644 | 278,043 | 3,043,905 |
| Unearned revenue. | 641,771 | | 148,100 | 789,871 |
| Total liabilities | <u>1,686,641</u> | <u>2,407,216</u> | <u>624,426</u> | <u>4,718,283</u> |
| Fund balances: | | | | |
| Reserved for encumbrances | 73,031 | 24,411 | 1,491,055 | 1,588,497 |
| Reserved for materials and supplies inventory | | | 58,761 | 58,761 |
| Reserved for loans | | | 298,125 | 298,125 |
| Reserved for debt service. | | | 306,434 | 306,434 |
| Reserved for unclaimed monies | 10,119 | | | 10,119 |
| Unreserved: | | | | |
| Designated for workers compensation | 235,181 | | | 235,181 |
| Undesignated, reported in: | | | | |
| General fund | 1,389,337 | | | 1,389,337 |
| Special revenue funds. | | 3,742,094 | 3,313,561 | 7,055,655 |
| Capital projects funds. | | | 844,662 | 844,662 |
| Total fund balances. | <u>1,707,668</u> | <u>3,766,505</u> | <u>6,312,598</u> | <u>11,786,771</u> |
| Total liabilities and fund balances | <u>\$ 3,394,309</u> | <u>\$ 6,173,721</u> | <u>\$ 6,937,024</u> | <u>\$ 16,505,054</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010

| | | | |
|---|----|-------------|-------------|
| Total governmental fund balances | | \$ | 11,786,771 |
| <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. | | | 22,326,120 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | | |
| Income tax receivable | \$ | 2,387,644 | |
| Property and other local taxes receivable | | 80,258 | |
| Intergovernmental receivable | | 559,622 | |
| Interest income receivable | | 16,381 | |
| Total | | 3,043,905 | 3,043,905 |
| 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. | | | 14,494 |
| An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities. | | | (14) |
| In the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest is reported when due. | | | (31,608) |
| Deferred bond issuance costs are not recognized in the funds. | | | 112,465 |
| Unamortized premiums on bond issuances are not recognized in the funds. | | | (79,035) |
| Unamortized deferred losses on refundings are not recognized in the funds. | | | 116,014 |
| 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 | | (2,765,000) | |
| Ohio police and fire pension obligation | | (741,537) | |
| Compensated absences | | (752,112) | |
| Total | | (4,258,649) | (4,258,649) |
| Net assets of governmental activities | | \$ | 33,030,463 |

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, 2010

| | General | Municipal Income Tax | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Income taxes | | \$ 7,759,220 | | \$ 7,759,220 |
| Property and other local taxes | \$ 844,499 | | \$ 177,374 | 1,021,873 |
| Charges for services | 18,985 | | 439,875 | 458,860 |
| Licenses, permits and fees | 8,152 | | | 8,152 |
| Fines and forfeitures | 233,971 | | 146,614 | 380,585 |
| Intergovernmental | 1,213,885 | | 1,489,887 | 2,703,772 |
| Special assessments | | | 80,451 | 80,451 |
| Investment income | 87,163 | | 3,616 | 90,779 |
| Other | 118,815 | | 83,213 | 202,028 |
| Total revenues. | <u>2,525,470</u> | <u>7,759,220</u> | <u>2,421,030</u> | <u>12,705,720</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,781,537 | 568,012 | 39,840 | 2,389,389 |
| Security of persons and property | 5,008,203 | | 746,349 | 5,754,552 |
| Public health and welfare | 16,305 | | | 16,305 |
| Transportation | | | 922,551 | 922,551 |
| Community environment | 122,554 | | 297,806 | 420,360 |
| Leisure time activity | 615,718 | | 791,984 | 1,407,702 |
| Economic development and assistance | 109,255 | | 1,331 | 110,586 |
| Capital outlay | | | 1,181,286 | 1,181,286 |
| Debt service: | | | | |
| Principal retirement | | | 291,997 | 291,997 |
| Interest and fiscal charges | | | 128,702 | 128,702 |
| Total expenditures | <u>7,653,572</u> | <u>568,012</u> | <u>4,401,846</u> | <u>12,623,430</u> |
| Excess (deficiency) of revenues over (under) expenditures | (5,128,102) | 7,191,208 | (1,980,816) | 82,290 |
| Other financing sources (uses): | | | | |
| Transfers in | 5,510,000 | | 2,142,000 | 7,652,000 |
| Transfers out | (1,110,000) | (7,042,000) | | (8,152,000) |
| Total other financing sources (uses) | <u>4,400,000</u> | <u>(7,042,000)</u> | <u>2,142,000</u> | <u>(500,000)</u> |
| Net change in fund balances | (728,102) | 149,208 | 161,184 | (417,710) |
| Fund balances at beginning of year. | <u>2,435,770</u> | <u>3,617,297</u> | <u>6,151,414</u> | <u>12,204,481</u> |
| Fund balances at end of year. | <u>\$ 1,707,668</u> | <u>\$ 3,766,505</u> | <u>\$ 6,312,598</u> | <u>\$ 11,786,771</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, 2010

Net change in fund balances - total governmental funds \$ (417,710)

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

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

| | | |
|---------------------------|--------------------|--------------------|
| Capital asset additions | \$ 424,120 | |
| Current year depreciation | (1,523,360) | |
| Total | (1,099,240) | (1,099,240) |

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.

(2,379)

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

| | | |
|---------------------------|----------------|----------------|
| Delinquent property taxes | 4,725 | |
| Intergovernmental | 34,066 | |
| Municipal income taxes | 317,818 | |
| Interest | 12,043 | |
| Total | 368,652 | 368,652 |

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.

291,997

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 no interest being reported in the statement of activities:

| | | |
|--|-----------------|-----------------|
| Decrease in accrued interest | 3,143 | |
| Amortization of bond premium | 9,120 | |
| Amortization of deferred loss on refunding | (13,386) | |
| Amortization of bond issuance costs | (12,977) | |
| Total | (14,100) | (14,100) |

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

63,492

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 \$23, is allocated among the governmental activities.

128

Change in net assets of governmental activities **\$ (809,160)**

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, 2010

| | <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 | \$ 942,867 | \$ 965,391 | \$ 950,563 | \$ (14,828) |
| Charges for services | 18,831 | 19,281 | 18,985 | (296) |
| Licenses, permits and fees | 8,086 | 8,279 | 8,152 | (127) |
| Fines and forfeitures | 234,884 | 240,495 | 236,801 | (3,694) |
| Intergovernmental | 1,128,425 | 1,155,382 | 1,137,636 | (17,746) |
| Investment income | 87,085 | 89,166 | 87,796 | (1,370) |
| Other | 123,444 | 126,393 | 124,452 | (1,941) |
| Total revenues. | <u>2,543,622</u> | <u>2,604,387</u> | <u>2,564,385</u> | <u>(40,002)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,869,249 | 1,914,799 | 1,814,215 | 100,584 |
| Security of persons and property. | 4,996,278 | 5,067,278 | 4,987,938 | 79,340 |
| Public health and welfare | 19,871 | 19,871 | 16,434 | 3,437 |
| Community environment. | 132,928 | 132,928 | 123,970 | 8,958 |
| Leisure time activity | 631,870 | 655,870 | 625,500 | 30,370 |
| Economic development and assistance | 112,670 | 113,670 | 110,257 | 3,413 |
| Other | 3,000 | 3,000 | 3,000 | 3,000 |
| Total expenditures | <u>7,765,866</u> | <u>7,907,416</u> | <u>7,678,314</u> | <u>229,102</u> |
| Excess of expenditures over revenues. | <u>(5,222,244)</u> | <u>(5,303,029)</u> | <u>(5,113,929)</u> | <u>189,100</u> |
| Other financing sources (uses): | | | | |
| Sale of capital assets | 991 | 1,015 | 999 | (16) |
| Transfers in. | 5,465,387 | 5,595,949 | 5,510,000 | (85,949) |
| Transfers out | <u>(610,000)</u> | <u>(1,110,000)</u> | <u>(1,110,000)</u> | <u>(85,965)</u> |
| Total other financing sources (uses) | <u>4,856,378</u> | <u>4,486,964</u> | <u>4,400,999</u> | <u>(85,965)</u> |
| Net change in fund balance. | (365,866) | (816,065) | (712,930) | 103,135 |
| Fund balance at beginning of year. | 2,701,776 | 2,701,776 | 2,701,776 | |
| Prior year encumbrances appropriated | <u>39,511</u> | <u>39,511</u> | <u>39,511</u> | |
| Fund balance at end of year. | <u>\$ 2,375,421</u> | <u>\$ 1,925,222</u> | <u>\$ 2,028,357</u> | <u>\$ 103,135</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MUNICIPAL INCOME TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Income taxes | \$ 7,012,880 | \$ 7,556,131 | \$ 7,734,008 | \$ 177,877 |
| Other | 87,120 | 93,869 | 96,079 | 2,210 |
| Total revenues. | <u>7,100,000</u> | <u>7,650,000</u> | <u>7,830,087</u> | <u>180,087</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 623,376 | 623,376 | 573,117 | 50,259 |
| Excess of revenues over expenditures | <u>6,476,624</u> | <u>7,026,624</u> | <u>7,256,970</u> | <u>230,346</u> |
| Other financing uses: | | | | |
| Transfers out | (7,042,000) | (7,042,000) | (7,042,000) | |
| Net change in fund balance. | (565,376) | (15,376) | 214,970 | 230,346 |
| Fund balance at beginning of year | 1,951,301 | 1,951,301 | 1,951,301 | |
| Prior year encumbrances appropriated | <u>39,901</u> | <u>39,901</u> | <u>39,901</u> | |
| Fund balance at end of year. | <u>\$ 1,425,826</u> | <u>\$ 1,975,826</u> | <u>\$ 2,206,172</u> | <u>\$ 230,346</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

| | <u>Business-type Activities - Enterprise Funds</u> | | | Governmental Activities - Internal Service Funds |
|---|--|----------------------|----------------------|---|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> | |
| Assets: | | | | |
| Current assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 3,135,599 | \$ 4,820,536 | \$ 7,956,135 | \$ 17,665 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Accounts | 836,724 | 854,224 | 1,690,948 | |
| Materials and supplies inventory | 223,346 | 52,158 | 275,504 | |
| Noncurrent assets: | | | | |
| Restricted assets: | | | | |
| Equity in pooled cash and cash equivalents | 48,835 | | 48,835 | |
| Unamortized bond issue costs | 321,338 | | 321,338 | |
| Capital assets: | | | | |
| Land and construction-in-progress | 12,986,670 | 750,415 | 13,737,085 | |
| Depreciable capital assets, net | <u>32,517,371</u> | <u>9,063,025</u> | <u>41,580,396</u> | |
| Total capital assets | <u>45,504,041</u> | <u>9,813,440</u> | <u>55,317,481</u> | |
| Total assets | <u>50,069,883</u> | <u>15,540,358</u> | <u>65,610,241</u> | <u>17,665</u> |
| Liabilities: | | | | |
| Current liabilities: | | | | |
| Accounts payable | 77,647 | 49,195 | 126,842 | 365 |
| Contracts payable | 401,011 | 1,844 | 402,855 | |
| Accrued wages and benefits | 68,308 | 83,132 | 151,440 | 2,569 |
| Pension obligation payable | 6,423 | 7,704 | 14,127 | 237 |
| Accrued interest payable | 14,765 | | 14,765 | |
| Current portion of compensated absences | 32,500 | 64,879 | 97,379 | |
| Current portion of general obligation bonds payable | 435,000 | | 435,000 | |
| Current portion of OPWC loans payable | | 19,225 | 19,225 | |
| Payable from restricted assets: | | | | |
| Refundable deposits | <u>48,835</u> | | <u>48,835</u> | |
| Total current liabilities | <u>1,084,489</u> | <u>225,979</u> | <u>1,310,468</u> | <u>3,171</u> |
| Long-term liabilities: | | | | |
| Compensated absences | 121,125 | 154,559 | 275,684 | |
| General obligation bonds payable | 7,490,000 | | 7,490,000 | |
| OWDA loans payable | 1,807,543 | 167,391 | 1,974,934 | |
| OPWC loans payable | | 223,367 | 223,367 | |
| Total long-term liabilities | <u>9,418,668</u> | <u>545,317</u> | <u>9,963,985</u> | |
| Total liabilities | <u>10,503,157</u> | <u>771,296</u> | <u>11,274,453</u> | <u>3,171</u> |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 35,771,498 | 9,403,457 | 45,174,955 | |
| Unrestricted | <u>3,795,228</u> | <u>5,365,605</u> | <u>9,160,833</u> | <u>14,494</u> |
| Total net assets | <u>\$ 39,566,726</u> | <u>\$ 14,769,062</u> | <u>54,335,788</u> | <u>\$ 14,494</u> |
| Adjustment to reflect the consolidation of the internal service fund activity related to enterprise funds | | | <u>14</u> | |
| Net assets of business-type activities | | | <u>\$ 54,335,802</u> | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

| | <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 | \$ 4,778,578 | \$ 5,480,226 | \$ 10,258,804 | \$ 67,194 |
| Tap-in fees | 3,091 | | 3,091 | |
| Other | 4,561 | 4,930 | 9,491 | |
| Total operating revenues | <u>4,786,230</u> | <u>5,485,156</u> | <u>10,271,386</u> | <u>67,194</u> |
| Operating expenses: | | | | |
| Personal services | 1,548,190 | 1,903,239 | 3,451,429 | 56,082 |
| Fringe benefits | - | - | - | 6 |
| Contractual services | 453,173 | 271,060 | 724,233 | 2,996 |
| Materials and supplies | 1,239,361 | 504,540 | 1,743,901 | 1,124 |
| Utilities expense | 211,738 | 344,609 | 556,347 | 5,896 |
| Depreciation | 1,389,888 | 546,539 | 1,936,427 | |
| Other | 107,659 | 69,044 | 176,703 | 985 |
| Total operating expenses | <u>4,950,009</u> | <u>3,639,031</u> | <u>8,589,040</u> | <u>67,089</u> |
| Operating income (loss) | <u>(163,779)</u> | <u>1,846,125</u> | <u>1,682,346</u> | <u>105</u> |
| Nonoperating revenues (expenses): | | | | |
| Interest revenue | 970 | 238 | 1,208 | |
| Interest and fiscal charges | (382,957) | | (382,957) | |
| Loss on disposal of capital assets | (8,108) | (480) | (8,588) | |
| Intergovernmental | | 416 | 416 | |
| Total nonoperating revenues (expenses) | <u>(390,095)</u> | <u>174</u> | <u>(389,921)</u> | |
| Net income (loss) before capital contributions and transfers | <u>(553,874)</u> | <u>1,846,299</u> | <u>1,292,425</u> | <u>105</u> |
| Transfer in | 500,000 | | 500,000 | |
| Transfer out - Capital Contributions to Other Funds | (2,479) | | (2,479) | |
| Capital contributions | 4,949,663 | 10,650 | 4,960,313 | |
| Changes in net assets | <u>4,893,310</u> | <u>1,856,949</u> | <u>6,750,259</u> | <u>105</u> |
| Net assets at beginning of year | <u>34,673,416</u> | <u>12,912,113</u> | | <u>14,389</u> |
| Net assets at end of year | <u>\$ 39,566,726</u> | <u>\$ 14,769,062</u> | | <u>\$ 14,494</u> |
| Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds. | | | (23) | |
| Change in net assets of business-type activities. | | | <u>\$ 6,750,236</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, 2010

| | <u>Business-type Activities - Enterprise Funds</u> | | | Governmental Activities - Internal Service Funds |
|---|--|---------------------|------------------|---|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> | |
| Cash flows from operating activities: | | | | |
| Cash received from charges for services | \$ 4,431,284 | \$ 5,149,461 | \$ 9,580,745 | \$ 67,194 |
| Cash received from tap-in fees | 3,091 | | 3,091 | |
| Cash received from other operations | 20,511 | 4,930 | 25,441 | |
| Cash payments for personal services | (1,526,855) | (1,901,810) | (3,428,665) | (55,935) |
| Cash payments for contractual services | (126,594) | (292,623) | (419,217) | (3,254) |
| Cash payments for materials and supplies. | (1,222,068) | (516,911) | (1,738,979) | (1,124) |
| Cash payments for utilities expense. | (191,157) | (320,597) | (511,754) | (5,896) |
| Cash payments for other expenses | (122,604) | (69,044) | (191,648) | (985) |
| Net cash provided by operating activities | <u>1,265,608</u> | <u>2,053,406</u> | <u>3,319,014</u> | |
| Cash flows from noncapital financing activities: | | | | |
| Cash received from special assessments | | 416 | #REF! | |
| Cash received from transfers in | 500,000 | | 500,000 | |
| Net cash provided by noncapital financing activities | <u>500,000</u> | <u>416</u> | <u>#REF!</u> | |
| Cash flows from capital and related financing activities: | | | | |
| Cash payments for the acquisition of capital assets. | (7,358,848) | (393,859) | #REF! | |
| Cash received from capital contributions. | 4,696,138 | 10,650 | 4,706,788 | |
| Cash payments for principal retirement. | (420,000) | (19,224) | (439,224) | |
| Cash payments for interest and fiscal charges | (367,895) | | (367,895) | |
| Cash received from OWDA loan issuance. | 1,807,543 | 167,391 | 1,974,934 | |
| Net cash used in capital and related financing activities. | <u>(1,643,062)</u> | <u>(235,042)</u> | <u>#REF!</u> | |
| Cash flows from investing activities: | | | | |
| Cash received from interest earned. | 970 | 238 | 1,208 | |
| Net increase in cash and cash equivalents | 123,516 | 1,819,018 | #REF! | |
| Cash and cash equivalents at beginning of year | 3,060,918 | 3,001,518 | 6,062,436 | 17,665 |
| Cash and cash equivalents at end of year. | <u>\$ 3,184,434</u> | <u>\$ 4,820,536</u> | <u>#REF!</u> | <u>\$ 17,665</u> |

- - Continued

CITY OF FREMONT
SANDUSKY COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

| | Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Funds |
|--|---|---------------------|---------------------|---|
| | Water | Sewer | Total | |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | |
| Operating income (loss) | \$ (163,779) | \$ 1,846,125 | \$ 1,682,346 | \$ 105 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | 1,389,888 | 546,539 | 1,936,427 | |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in materials and supplies inventory | 17,101 | (12,836) | 4,265 | |
| (Increase) in accounts receivable. | (347,294) | (330,765) | (678,059) | |
| Increase (decrease) in accounts payable | 34,921 | 1,043 | 35,964 | (252) |
| Increase in contracts payable | 312,636 | 1,844 | 314,480 | |
| Increase (decrease) in accrued wages and benefits. | 6,389 | (394) | 5,995 | 114 |
| Increase in compensated absences payable. | 13,525 | 1,201 | 14,726 | |
| Increase in refundable deposits liability | 1,005 | | 1,005 | |
| Increase in pension obligation payable. | 1,216 | 649 | 1,865 | 33 |
| Net cash provided by operating activities | <u>\$ 1,265,608</u> | <u>\$ 2,053,406</u> | <u>\$ 3,319,014</u> | |

During 2010, the water fund received \$253,525 in capital contributions from other funds.

During 2010, the water fund transferred \$2,479 in capital contributions to other funds.

During 2010, the sewer fund received \$10,650 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, 2010

| | | Agency |
|--|--------|---------------|
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ | 60,975 |
| Cash in segregated accounts | | 3,465 |
| Receivables: | | |
| Accounts | | 2,237 |
| Total assets | \$ | 66,677 |
| Liabilities: | | |
| Due to other governments. | \$ | 5,531 |
| Deposits held and due to others. | | 61,146 |
| Total liabilities | \$ | 66,677 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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, 2010
(Continued)**

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

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

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

The following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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

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

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

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

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

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

Sewer Fund - This fund accounts for the provision of sanitary sewer service to the 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.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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

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.

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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

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, 2010, but which were levied to finance year 2011 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, 2010, 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.

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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

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

Estimated Resources - The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include the actual unencumbered fund balances from the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines that revenue to be collected will be greater than or less than prior estimates and the County Budget Commission 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 2010.

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 2010.

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

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

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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

segregated accounts”.

During 2010, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities and nonnegotiable certificates of deposit.

Investments are reported at fair value, except for non-negotiable certificates of deposit which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2010.

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 2010 was \$87,163, which includes \$74,310 assigned from other City funds.

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

H. Loans Receivable

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

I. Inventories of Materials and Supplies

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

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

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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

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 2010.

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 |

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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

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.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the BFS. Interfund activity between governmental funds is eliminated for reporting on the governmental statement of activities.

N. Fund Balance Reserves and Designations

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds. The City reports a reservation of fund balance for encumbrances, materials and supplies inventory, loans, debt service, and unclaimed monies in the governmental fund financial statements.

A designation of fund balance represents a self-imposed limitation on the use of available expendable resources by the City Council. The designation within the general fund represents monies set aside by the Council for future payment of workers' compensation.

O. Restricted Assets

Customer deposits are held in the water fund to assure payment of utility bills, but net assets have not been reserved, since this restriction is imposed by City Council.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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

Restricted assets at December 31, 2010 are comprised of the following:

| | |
|-------------------|-------------------------------------|
| | Cash and <u>Cash Equivalents</u> |
| Customer deposits | <u>\$ 48,835</u> |

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.

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 2010, the water enterprise fund received \$4,949,663 and the sewer enterprise fund received \$10,650 in capital contributions.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

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

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 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For 2010, the City has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the City.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the City.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the City.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provide that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 \$48,835 in restricted assets for refundable deposits from customers of the water fund. This amount is included in the "deposits with financial institutions" below.

A. Deposits with Financial Institutions

As of December 31, 2010, the carrying amount of all City deposits was \$12,533,777. At December 31, 2010, \$3,822,509 of the City's bank balance of \$12,873,386 was covered by the Federal Deposit Insurance Corporation and \$9,050,877 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of December 31, 2010, the City had the following investments and maturities:

| Investment type | Fair Value | Investment Maturities | | |
|-----------------|--------------|-----------------------|-----------------|-----------------|
| | | 6 months or less | 13 to 18 months | 19 to 24 months |
| STAR Ohio | \$ 409,835 | \$ 409,835 | | |
| FFCB | 3,498,845 | | \$ 1,999,730 | \$ 1,499,115 |
| FHLB | 1,999,185 | | 500,320 | 1,498,865 |
| Total | \$ 5,907,865 | \$ 409,835 | \$ 2,500,050 | \$ 2,997,980 |

The weighted average maturity of investments is 1.40 years.

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

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

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The City's other investments were rated 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 issuer or specific class of securities. The following table includes the percentage of each investment type held by the City at December 31, 2010:

| Investment type | Fair Value | % of Total |
|-----------------|--------------|------------|
| STAR Ohio | \$ 409,835 | 7% |
| FFCB | 3,498,845 | 59% |
| FHLB | 1,999,185 | 34% |
| Total | \$ 5,907,865 | 100% |

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note disclosure above to cash and investments as reported on the statement of net assets as of December 31, 2010:

| | |
|---|----------------------|
| <u>Cash and investments per note disclosure</u> | |
| Carrying amount of deposits | \$ 12,533,777 |
| Investments | 5,907,865 |
| Cash in segregated accounts | 3,465 |
| Total | <u>\$ 18,445,107</u> |
| <u>Cash and investments per statement of net assets</u> | |
| Governmental activities | \$ 10,375,697 |
| Business type activities | 8,004,970 |
| Agency funds | 64,440 |
| Total | <u>\$ 18,445,107</u> |

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2010 consisted of the following, as reported in the fund financial statements:

| | |
|---|---------------------|
| <u>Transfers from general fund to:</u> | |
| Water fund | \$ 500,000 |
| Nonmajor governmental funds | 610,000 |
| <u>Transfers from municipal income tax fund to:</u> | |
| General fund | 5,510,000 |
| Nonmajor governmental funds | 1,532,000 |
| Total | <u>\$ 8,152,000</u> |

NOTE 6 - PROPERTY TAXES

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

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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 6 - PROPERTY TAXES - (Continued)

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. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

The County Treasurer collects property taxes on behalf of all taxing districts 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, 2010 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 2010 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, 2010 was \$3.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Real property

| | |
|-------------------------------|----------------|
| Residential/agricultural | \$ 151,938,430 |
| Commercial/industrial/mineral | 95,789,150 |

Public utility

| | |
|----------|-----------|
| Real | 79,360 |
| Personal | 9,363,190 |

| | |
|----------------------|------------------------------|
| Total assessed value | <u><u>\$ 257,170,130</u></u> |
|----------------------|------------------------------|

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 7 - LOCAL INCOME TAX

The City levies and collects an income tax of 1.5 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. Income tax revenue is credited to the municipal income tax fund and amounted to \$7,759,220 in 2010.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2010 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, 2010, as well as intended to finance 2010 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 | \$ 3,943,138 | |
| Property and other local taxes | 870,129 | |
| Accounts | 39,898 | \$ 1,690,948 |
| Loans | 318,530 | |
| Accrued interest | 16,381 | |
| Due from other governments | 900,185 | |
| Total | <u>\$ 6,088,261</u> | <u>\$ 1,690,948</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).

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 2010, there were loans to five businesses with a total principal balance of \$318,530. \$20,405 is the amount due within one year and \$298,125 is due in more than one year.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

| <u>Governmental activities:</u> | <u>Balance 12/31/09</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/10</u> |
|--|-----------------------------|------------------------------|--------------------------|-----------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 803,959 | | | \$ 803,959 |
| Construction-in-progress | 31,339 | \$ 35,305 | | 66,644 |
| <i>Total capital assets, not being depreciated</i> | <u>835,298</u> | <u>35,305</u> | | <u>870,603</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 4,563,166 | 45,487 | \$ (8,449) | 4,600,204 |
| Buildings and improvements | 12,538,648 | 12,000 | | 12,550,648 |
| Machinery and equipment | 4,930,139 | 237,056 | (63,894) | 5,103,301 |
| Infrastructure | 16,531,363 | 128,789 | | 16,660,152 |
| <i>Total capital assets, being depreciated</i> | <u>38,563,316</u> | <u>423,332</u> | <u>(72,343)</u> | <u>38,914,305</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (1,212,948) | (201,454) | 3,591 | (1,410,811) |
| Buildings and improvements | (4,160,507) | (360,623) | | (4,521,130) |
| Machinery and equipment | (3,176,708) | (352,968) | 63,894 | (3,465,782) |
| Infrastructure | (7,420,712) | (640,353) | | (8,061,065) |
| <i>Total accumulated depreciation</i> | <u>(15,970,875)</u> | <u>(1,555,398)</u> | <u>67,485</u> | <u>(17,458,788)</u> |
| Total capital assets, being depreciated, net | <u>22,592,441</u> | <u>(1,132,066)</u> | <u>(4,858)</u> | <u>21,455,517</u> |
| Total capital assets, net | <u><u>\$ 23,427,739</u></u> | <u><u>\$ (1,096,761)</u></u> | <u><u>\$ (4,858)</u></u> | <u><u>\$ 22,326,120</u></u> |

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

| <u>Governmental activities:</u> | |
|--|----------------------------|
| General government | \$ 84,478 |
| Security of persons and property | 182,488 |
| Transportation | 775,701 |
| Leisure time activities | 459,266 |
| Economic development | 21,427 |
| Total depreciation expense | <u><u>\$ 1,523,360</u></u> |

Depreciation expense for governmental activities differs from additions to accumulated depreciation during 2010 due to the transfer of fully depreciated assets in the amount of \$32,038 from business-type activities to governmental activities.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 10 - CAPITAL ASSETS - (Continued)

| <u>Business-type activities:</u> | <u>Balance 12/31/09</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/10</u> |
|--|-----------------------------|---------------------|---------------------|-----------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 898,891 | \$ 5,097 | | \$ 903,988 |
| Construction-in-progress | <u>5,536,651</u> | <u>7,673,583</u> | <u>\$ (377,137)</u> | <u>12,833,097</u> |
| <i>Total capital assets, not being depreciated</i> | <u>6,435,542</u> | <u>7,678,680</u> | <u>(377,137)</u> | <u>13,737,085</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 1,607,589 | | (3,824) | 1,603,765 |
| Buildings and improvements | 36,048,540 | | | 36,048,540 |
| Machinery and equipment | 7,899,576 | 219,817 | (54,332) | 8,065,061 |
| Infrastructure | <u>22,232,728</u> | <u>523,401</u> | | <u>22,756,129</u> |
| <i>Total capital assets, being depreciated</i> | <u>67,788,433</u> | <u>743,218</u> | <u>(58,156)</u> | <u>68,473,495</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (272,174) | (46,328) | 688 | (317,814) |
| Buildings and improvements | (13,236,222) | (1,017,535) | | (14,253,757) |
| Machinery and equipment | (5,019,041) | (463,608) | 48,880 | (5,433,769) |
| Infrastructure | <u>(6,437,795)</u> | <u>(449,964)</u> | | <u>(6,887,759)</u> |
| <i>Total accumulated depreciation</i> | <u>(24,965,232)</u> | <u>(1,977,435)</u> | <u>49,568</u> | <u>(26,893,099)</u> |
| Total capital assets, being depreciated, net | <u>42,823,201</u> | <u>(1,234,217)</u> | <u>(8,588)</u> | <u>41,580,396</u> |
| Total capital assets, net | <u>\$ 49,258,743</u> | <u>\$ 6,444,463</u> | <u>\$ (385,725)</u> | <u>\$ 55,317,481</u> |

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

| <u>Business-type activities:</u> | <u>Depreciation Expense</u> |
|---|---------------------------------|
| Water fund | \$ 1,389,888 |
| Sewer fund | <u>546,539</u> |
| Total depreciation expense | <u>\$ 1,936,427</u> |

Depreciation expense for business-type activities differs from additions to accumulated depreciation during 2010 due to the transfer of fully depreciated assets in the amount of \$41,008 from governmental activities to business-type activities.

NOTE 11 - LONG-TERM OBLIGATIONS

A. Governmental Activities

The City's governmental activities long-term obligations at December 31, 2010 were as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

| <u>Governmental activities:</u> | Balance 12/31/09 | Increases | Decreases | Balance 12/31/10 | Amount Due Within One Year |
|------------------------------------|---------------------|------------------|---------------------|---------------------|----------------------------------|
| <u>General obligation bonds</u> | | | | | |
| Community center | \$ 3,040,000 | | \$ (275,000) | \$ 2,765,000 | \$ 285,000 |
| <u>Pension liability</u> | | | | | |
| Police and fire pension | 758,534 | | (16,997) | 741,537 | 17,727 |
| <u>Other long-term obligations</u> | | | | | |
| Compensated absences | 844,376 | \$ 67,070 | (82,422) | 829,024 | 130,373 |
| Total | \$ 4,642,910 | \$ 67,070 | \$ (374,419) | 4,335,561 | \$ 433,100 |
| Unamortized premium on bonds | | | | 79,035 | |
| Deferred loss on advance refunding | | | | (116,014) | |
| Total long-term obligations | | | | \$ 4,298,582 | |

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, 2010 is \$2,670,000; however, this amount is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

The advance refunding was undertaken to reduce the total debt service payments by \$429,744, and resulted in an economic gain of \$404,761.

B. Business-Type Activities

The City's business-type activities long-term obligations at December 31, 2010 were as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

| <u>Business-type activities:</u> | Balance 12/31/09 | Increases | Decreases | Balance 12/31/10 | Amount Due Within One Year |
|---|---------------------|---------------------|---------------------|---------------------|----------------------------------|
| <u>General obligation bonds</u> | | | | | |
| Water - series 2003 | \$ 4,515,000 | | \$ (225,000) | \$ 4,290,000 | \$ 230,000 |
| Water - series 2003 | 1,970,000 | | (105,000) | 1,865,000 | 110,000 |
| Water - series 2003 | 1,860,000 | | (90,000) | 1,770,000 | 95,000 |
| Total | <u>8,345,000</u> | | <u>(420,000)</u> | <u>7,925,000</u> | <u>435,000</u> |
| <u>OPWC loans</u> | | | | | |
| Sewer - series 2001 | 123,990 | | (10,332) | 113,658 | 10,333 |
| Sewer - series 2004 | 137,826 | | (8,892) | 128,934 | 8,892 |
| Total | <u>261,816</u> | | <u>(19,224)</u> | <u>242,592</u> | <u>19,225</u> |
| <u>OWDA loans</u> | | | | | |
| Dam Removal Project | | \$ 167,391 | | 167,391 | |
| Water Reservoir Phase 1 | | 1,266,803 | | 1,266,803 | |
| Water Reservoir Phase 2 | | 540,740 | | 540,740 | |
| Total | | <u>1,974,934</u> | | <u>1,974,934</u> | |
| <u>Other long-term obligations</u> | | | | | |
| Compensated absences | 358,337 | 125,409 | (110,683) | 373,063 | 97,379 |
| Total long-term obligations | <u>\$ 8,965,153</u> | <u>\$ 2,100,343</u> | <u>\$ (549,907)</u> | <u>\$10,515,589</u> | <u>\$ 551,604</u> |

General Obligation Bonds: Water - Series 2003

The general obligation bonds were originally issued in 1994 for \$6,130,000, were reissued in 2003 for \$5,710,000, and carry an interest rate of 2.00 - 5.00 percent. The general obligation bonds are a general obligation of the City, and the principal and interest payments are paid out of the water fund. The general obligation bonds were issued for improvements to the water plant and facilities. A portion of the proceeds of the bonds were used for the advance refunding of the 1994 general obligation bonds. These proceeds were used to purchase state and local government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The balance of the refunded bonds at December 31, 2010 is \$2,050,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

The advance refunding was undertaken to reduce the total debt service payments by \$545,365, and resulted in an economic gain of \$459,156.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds: Water - Series 2003

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

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, 2010 is \$1,830,000, but is not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

The refunding was undertaken to reduce the total debt service payments by \$584,960 and resulted in an economic gain of \$428,816.

OPWC Loans

The OPWC loans were granted from the Ohio Public Works Commission in 2001 and 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 Sewer Dam Removal Project. 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, 2010, loan amounts have not been finalized, therefore, a schedule of future payments has not been included.

- 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, 2010 are as follows:

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(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 |
| 2011 | \$ 285,000 | \$ 83,025 | \$ 368,025 | \$ 17,727 | \$ 31,329 | \$ 49,056 |
| 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 - 2020 | 1,305,000 | 119,300 | 1,424,300 | 119,186 | 126,094 | 245,280 |
| 2021 - 2025 | | | | 147,079 | 98,201 | 245,280 |
| 2026 - 2030 | | | | 181,496 | 63,784 | 245,280 |
| 2031 - 2035 | | | | 197,191 | 21,358 | 218,549 |
| Total | \$ 2,765,000 | \$ 462,675 | \$ 3,227,675 | \$ 741,537 | \$ 458,132 | \$ 1,199,669 |

| Year Ending December 31. | General Obligation Bonds - Water - Series 2003 | | | General Obligation Bonds - Water - Series 2003 | | |
|--------------------------------|---|---------------------|---------------------|---|-------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2011 | \$ 230,000 | \$ 191,759 | \$ 421,759 | \$ 110,000 | \$ 82,344 | \$ 192,344 |
| 2012 | 240,000 | 182,846 | 422,846 | 115,000 | 78,081 | 193,081 |
| 2013 | 250,000 | 173,246 | 423,246 | 120,000 | 73,481 | 193,481 |
| 2014 | 260,000 | 163,246 | 423,246 | 125,000 | 68,681 | 193,681 |
| 2015 | 270,000 | 152,846 | 422,846 | 130,000 | 63,681 | 193,681 |
| 2016 - 2020 | 1,535,000 | 584,916 | 2,119,916 | 735,000 | 232,315 | 967,315 |
| 2021 - 2025 | 1,505,000 | 193,000 | 1,698,000 | 530,000 | 53,750 | 583,750 |
| Total | \$ 4,290,000 | \$ 1,641,859 | \$ 5,931,859 | \$ 1,865,000 | \$ 652,333 | \$ 2,517,333 |

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

| Year Ending December 31, | General Obligation Bonds - Water - Series 2003 | | |
|--------------------------------|---|-------------------|---------------------|
| | Principal | Interest | Total |
| 2011 | \$ 95,000 | \$ 79,093 | \$ 174,093 |
| 2012 | 100,000 | 75,411 | 175,411 |
| 2013 | 105,000 | 71,411 | 176,411 |
| 2014 | 110,000 | 67,211 | 177,211 |
| 2015 | 110,000 | 62,811 | 172,811 |
| 2016 - 2020 | 630,000 | 240,514 | 870,514 |
| 2021 - 2025 | 620,000 | 79,250 | 699,250 |
| Total | <u>\$ 1,770,000</u> | <u>\$ 675,701</u> | <u>\$ 2,445,701</u> |

| Year Ending December 31, | OPWC Loans - Sewer - Series 2001 | | | OPWC Loans - Sewer - Series 2004 | | |
|--------------------------------|-------------------------------------|----------|-------------------|-------------------------------------|----------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2011 | \$ 10,333 | | \$ 10,333 | \$ 8,892 | | \$ 8,892 |
| 2012 | 10,332 | | 10,332 | 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 - 2020 | 51,662 | | 51,662 | 44,460 | | 44,460 |
| 2021 - 2025 | 10,333 | | 10,333 | 40,014 | | 40,014 |
| Total | <u>\$ 113,658</u> | | <u>\$ 113,658</u> | <u>\$ 128,934</u> | | <u>\$ 128,934</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, 2010, the City's voted debt margin was \$22,561,362 and the unvoted debt margin was \$13,412,111.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 12 - OTHER EMPLOYEE BENEFITS

Compensated Absences

Employees earn vacation and sick leave at different rates which are also affected by length of service. Vacation can be carried over at different rates depending on the department. Police 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, 2010, the governmental activities liability for compensated absences was \$829,024, the business-type activities liability for compensated absences was \$373,063, and the City's total liability for compensated absences was \$1,202,087.

NOTE 13 - RISK MANAGEMENT

Property and Casualty Insurance

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters.

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 local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). 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 Coverage

For an occurrence prior to January 1, 2006, PEP retains casualty risks up to \$350,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$13,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to an aggregate of \$10,000,000.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 13 - RISK MANAGEMENT - (Continued)

Property Coverage

Prior to January 1, 2009, Travelers reinsures specific losses exceeding \$250,000, and provides up to \$600,000,000 per occurrence. APEEP reinsures members for a specific loss exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provide aggregate stop-loss coverage based upon the combined PEP members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600,000,000 per occurrence limit.

On or after January 1, 2009, Travelers reinsures specific losses exceeding \$250,000, and provides up to \$600,000,000 per occurrence. APEEP reinsures members for a specific loss exceeding \$150,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined PEP members' total insurable values. If the stop-loss is reached by payment of losses between \$150,000 and \$500,000, Travelers will reinsure specific losses exceeding \$150,000 up to their \$600,000,000 per occurrence limit.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

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, 2010 and 2009:

| <u>Casualty & Property Coverage</u> | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Assets | \$34,952,010 | \$36,374,898 |
| Liabilities | <u>(14,320,812)</u> | <u>(15,256,862)</u> |
| Retained earnings | <u>\$20,631,198</u> | <u>\$21,118,036</u> |

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.4 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the City's share of these unpaid claims collectible in future years is approximately \$170,000.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(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 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> | |
|-----------------------------|-----------|
| 2008 | \$182,798 |
| 2009 | \$173,839 |
| 2010 | \$172,612 |

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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 that may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2010

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 14 - PENSION PLANS - (Continued)

member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.5% and 11.1%, respectively.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2010 was 8.50% from January 1 through February 28, 2010 and 9.00% from March 1 through December 31, 2010. The City's contribution rate for pension benefits for members in the Combined Plan for 2010 was 9.27% from January 1 through February 28, 2010 and 9.77% from March 1 through December 31, 2010. The City's required contributions for pension obligations to the traditional pension and combined plans for the years ended December 31, 2010, 2009, and 2008 were \$468,990, \$424,806, and \$368,125, respectively; 100% has been contributed for 2010, 2009 and 2008. Contributions to the member-directed plan for 2010 were \$13,752 made by the City and \$9,823 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 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2010, 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 \$247,179 and \$254,503 for the year ended December 31, 2010, \$238,093 and \$247,740 for the year ended December 31, 2009, and \$239,955 and \$239,532, for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 70.93% has been contributed for police and 73.82% has been contributed for firefighters for 2010.

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, 2010
(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. 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 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 administrated 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 2010, 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 2010 was 5.50% from January 1 through February 28, 2010 and 5.00% from March 1 through December 31, 2010. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2010 was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010.

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, 2010, 2009, and 2008 were \$266,696, \$307,114, and \$368,125, respectively; 100% has been contributed for 2010, 2009 and 2008.

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. These rate increases allowed additional funds to be allocated to the health care plan.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person.

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

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

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 administrated 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, 2010, 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.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$130,859 and \$99,588 for the year ended December 31, 2010, \$126,049 and \$96,942 for the year ended December 31, 2009, and \$127,035 and \$93,730, for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 70.93% has been contributed for police and 73.82% has been contributed for firefighters for 2010.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balances - budget and actual (non-GAAP budgetary basis) presented for the general fund and the municipal income tax 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 GAAP basis are as follows:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);
2. Expenditures/expenses and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP);
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP);
4. Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
5. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements.

**CITY OF FREMONT
SANDUSKY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)**

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

Net Change in Fund Balance

| | General | Municipal Income Tax |
|---|--------------|-------------------------|
| Budget basis | \$ (712,930) | \$ 214,970 |
| Net adjustment for revenue accruals | (38,915) | (70,867) |
| Net adjustment for expenditure accruals | (100,831) | (19,306) |
| Net adjustment for other financing sources/(uses) | (999) | |
| Adjustment for encumbrances | 125,573 | 24,411 |
| GAAP basis | \$ (728,102) | \$ 149,208 |

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, 2010.

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 except for a contractual matter the City is a defendant. The extent of the City's liability is in dispute and the range of potential loss is very uncertain. The City is currently seeking to settle all matters between the parties, however, is prepared to vigorously prosecute its position.

NOTE 18 – CONTRACTS

The City has entered into several contracts for the construction of a water reservoir. As of December 31, 2010, the outstanding balance on contracts was \$4,180,061.

**CITY OF FREMONT
SANDUSKY COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2010**

| 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 | \$808,534 |
| U.S. ARMY CORPS OF ENGINEERS | | | |
| Direct Assistance | | | |
| U.S. Army Corps of Engineers: Section 594 Environmental/Infrastructure Program | N/A | 12.XXX | 190,094 |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| <i>Passed through the Ohio Department of Development</i> | | | |
| Community Development Block Grants/Entitlement Grants (CDBG) Cluster | | | |
| Community Development Program | A-F-09-123-1 | 14.228 | 79,839 |
| Community Housing Improvement Program | A-C-09-123-1 | 14.228 | 110,065 |
| CDBG Revolving Loan Fund | | 14.228 | 51,613 |
| Total Community Development Block Grants | | | <u>241,517</u> |
| Community Housing Improvement Program Grant | A-C-09-123-2 | 14.239 | <u>107,903</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>349,420</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>6,475</u> |
| Total Federal Awards Expenditures | | | <u><u>\$1,354,523</u></u> |

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, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for 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, 2010, the gross amounts of loans outstanding under this program were \$318,530. A court judgment has been filed on a delinquent amount due of \$21,818.

Activity in the CDBG revolving loan fund during 2010 is as follows:

| | |
|---|------------------|
| Beginning loans receivable balance as of January 1, 2010 | \$388,224 |
| Loans made | 50,000 |
| Loan principal repaid | 119,694 |
| Ending loans receivable balance as of December 31, 2010 | <u>\$318,530</u> |
| | |
| Cash balance on hand in the revolving loan fund as of December 31, 2010 | \$241,511 |
| | |
| 2010 CDBG expenditures: | |
| Loans made | 50,000 |
| Administrative costs expended | 1,613 |
| Other grant expenditures administered through the 14.228 program | 189,904 |
| Total CDBG expenditures | <u>\$241,517</u> |

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 City of Fremont, Sandusky County, Ohio (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 21, 2011. 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 opinions 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.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 21, 2011.

We intend this report solely for the information and use of management, the audit committee, the City Council, federal awarding agencies, 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 "D" and "Y".

Dave Yost
Auditor of State

November 21, 2011



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 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, 2010. 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 express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with 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*. Those 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 those 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 those requirements.

In our opinion, the City 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, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as finding 2010-002.

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.

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www.auditor.state.oh.us

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 also noted a matter involving federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated November 21, 2011.

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



Dave Yost
Auditor of State

November 21, 2011

**CITY OF FREMONT
SANDUSKY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|---|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weaknesses reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510(a)? | Yes |
| <i>(d)(1)(vii)</i> | Major Programs (list): | CFDA #11.307 – Economic Adjustment Assistance, CFDA # 12.XXX – U.S. Army Corps of Engineers: Section 594 Environmental/Infrastructure Program. |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

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

FINDING NUMBER 2010-001

Material Weakness

Financial Reporting

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

Unrecorded funds paid on behalf of the City from Ohio Public Works Commission (\$69,432) and unrecorded receivables for Environmental Protection Agency fees for water and sewer funds (\$273,500). The loan from Ohio Water Development Authority (\$167,391) was misclassified as contributed capital to the Sewer fund. The capital projects balance (\$2,132,281) was incorrectly recorded as restricted instead of unrestricted.

The accompanying financial statements and, where applicable, the City's accounting records have been adjusted to correct these errors.

To ensure the City's financial statements and notes to the statements are complete and accurate, the 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.

3. FINDINGS FOR FEDERAL AWARDS

FINDING NUMBER 2010-002

Noncompliance Citation

OMB Circular A-133 § .200, Audits of States, Local Governments and Non-Profit Organizations, as published on 06/27/2003, requires Non-Federal entities that expend \$500,000 or more in a year in Federal awards to have a single or program-specific audit conducted for that year in accordance with the provisions of **OMB Circular A-133**.

OMB Circular A-133 § .320 requires the audit to be completed and the data collection form and reporting package to be submitted within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

The City expended greater than \$500,000 in Federal awards during fiscal year 2010 and did not have a single audit or a program-specific audit conducted to meet the nine month deadline. The City did not receive an extension to this filing requirement.

Officials' Response:

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

**CITY OF FREMONT
SANDUSKY COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2010**

| Finding Number | Planned Corrective Action | Anticipated Completion Date | Responsible Contact Person |
|----------------|--|-----------------------------|----------------------------|
| 2010-002 | The City will make an effort to complete the audit and submit the data collection form timely. | 09/30/12 | John Lauer, City Auditor |

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CITY OF FREMONT

SANDUSKY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 13, 2011