

CITY OF FREMONT, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

CITY OF FREMONT, IOWA

TABLE OF CONTENTS  
JUNE 30, 2012

	<u>PAGE</u>
<u>OFFICIALS</u>	1
<u>INDEPENDENT AUDITOR'S REPORT</u>	2-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4-8
<u>BASIC FINANCIAL STATEMENTS:</u>	<u>EXHIBIT</u>
GOVERNMENT-WIDE FINANCIAL STATEMENT: STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS	A 9-10
GOVERNMENTAL FUND FINANCIAL STATEMENT: STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	B 11
PROPRIETARY FUND FINANCIAL STATEMENT: STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	C 12
NOTES TO FINANCIAL STATEMENTS	13-17
<u>OTHER INFORMATION:</u>	
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS	18-19
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING	20
<u>SUPPLEMENTARY INFORMATION:</u>	<u>SCHEDULE</u>
SCHEDULE OF INDEBTEDNESS	1 21-22
BOND MATURITIES	2 23
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION – ALL GOVERNMENTAL FUNDS	3 24
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	4 25
<u>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</u>	26-27
<u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</u>	28-29
<u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u>	30-31

CITY OF FREMONT, IOWA

OFFICIALS

Edd Elder	Mayor	December, 2015
Michelle Rupprecht	Council Member	December, 2013
Cindy Purdy	Council Member	December, 2015
John Vanzante	Council Member	December, 2013
Max Marlin	Council Member	December, 2013
James Howrey	Council Member	December, 2013
David Dixon	Attorney	Appointed
Nancy Reed	Clerk	Appointed

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members  
of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Fremont, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fremont, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all the prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Fremont, Iowa as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Governmental Auditing Standards, we have also issued our report dated September 23, 2013 on our consideration of the City of Fremont, Iowa'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fremont, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2010 and 2006 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedule 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is prepared for purposes of additional analysis and is not required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fremont, Iowa's basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 18 through 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
September 23, 2013

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

The City of Fremont, Iowa, provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 164.98%, or \$526,721, from fiscal 2011 to fiscal 2012. Capital grants, contributions and restricted interest increased \$513,274.
- Disbursements of the City's governmental activities increased 200.36%, or \$537,172, from fiscal 2011 to fiscal 2012. Capital projects disbursements increased \$550,378. The majority of these increases is due to the disbursements for engineering and design expense related to the storm water system.
- The City's total cash basis net assets decreased 16.21%, or \$227,705 from June 30, 2011 to June 30, 2012. Of this amount, the net assets of the governmental activities increased \$40,703 and the net assets of the business type activities decreased by \$268,408.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental funds and proprietary funds were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the City's indebtedness. In addition, the Schedule of Expenditures of federal awards provides details of various federal programs benefiting the City.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, and 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds includes a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balances for governmental activities increased from a year ago, from \$817,899 to \$858,602. The analysis that follows focuses on the changes in cash basis net assets governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
		(Unaudited)
Receipts:		
Program receipts:		
Charges for service	\$ 12,852	\$ 5,394
Operating grants, contributions and restricted interest	70,474	68,848
Capital grants, contributions and restricted interest	571,188	57,914
General receipts:		
Property tax	122,275	118,263
Other city tax	63,430	57,547
Unrestricted investment earnings	770	2,069
Other general receipts	<u>4,992</u>	<u>9,225</u>
Total receipts	<u>845,981</u>	<u>319,260</u>
Disbursements:		
Public safety	21,980	18,111
Public works	73,811	58,857
Culture and recreation	17,338	16,312
General government	45,189	77,146
Debt service	43,015	44,113
Capital projects	<u>603,945</u>	<u>53,567</u>
Total disbursements	<u>805,278</u>	<u>268,106</u>
Change in cash basis net assets before transfers	40,703	51,154
Transfers, net	<u>-</u>	<u>(23,654)</u>
Change in cash basis net assets	40,703	27,500
Cash basis net assets beginning of year	<u>817,899</u>	<u>790,399</u>
Cash basis net assets end of year	\$ <u>858,602</u>	\$ <u>817,899</u>

The City's total receipts for governmental activities increased by 164.98%, or \$526,721. The total cost of all programs and services increased by \$537,172, or 200.36%, with no new programs added this year. The increase in receipts was primarily the result of an increase in CDBG grant receipts.

The cost of all governmental activities this year was \$805,278 compared to \$268,106 last year. However, as shown in the Statement of Activities and Net Assets on pages 9 and 10, the amount taxpayers ultimately financed for these activities was \$150,764 because some of the cost was paid by those directly benefited from the programs \$12,852 or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest \$641,662. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2012 from \$148,156 to \$654,514, principally due to receipts related to the construction of a new storm water system. The City paid for the remaining "public benefit" portion of governmental activities with \$185,705 in tax (some of which could only be used for certain programs) and with other receipts, such as unrestricted interest and general entitlements.

Changes in Cash Basis Net Assets of Business-Type Activities

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
		<u>(Unaudited)</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 56,505	\$ 79,158
Sewer	60,980	71,925
General receipts:		
Unrestricted investment earnings	<u>4</u>	<u>-</u>
Total receipts	<u>117,489</u>	<u>151,083</u>
Disbursements:		
Water	309,757	57,522
Sewer	<u>76,140</u>	<u>33,718</u>
Total disbursements	<u>385,897</u>	<u>91,240</u>
Change in cash basis net assets before transfers	(268,408)	59,843
Transfers, net	<u>-</u>	<u>23,654</u>
Change in cash balance net assets	(268,408)	83,497
Cash basis net assets at the beginning of year	<u>586,467</u>	<u>502,970</u>
Cash basis net assets at the end of year	\$ <u>318,059</u>	\$ <u>586,467</u>

Total business type activities receipts for the fiscal year were \$117,489 compared to \$151,083 in the prior year. Total disbursements for the fiscal year increased by 322.95%, or \$294,657, primarily due to increases in water fund expenditures.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Fremont, Iowa completed the year, its governmental funds reported a combined fund balance of \$858,602, an increase of \$40,703 from last year's total of \$817,899. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$25,470 from the prior year to \$279,041. The increase was primarily due to a decrease in expenditures.
- The Road Use Tax Fund cash balance increased by \$201,148 to \$277,617 during the current fiscal year. This increase resulted from decreases in expenditures in the current year.
- The Local Option Tax Fund cash balance increased \$51,073 to \$78,004. The increase is primarily due to collections in excess of current year disbursements.
- The Debt Service Fund cash balance decreased \$23,501 to \$(47,650) due to expenditures in excess of current year property tax receipts.
- The Capital Projects Fund cash balance decreased \$32,757 to \$271,590 due primarily to expenditures in excess of current CDBG grant receipts.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased by \$253,252 to \$28,606, due to an increase in expenditures.
- The Sewer Fund cash balance decreased by \$15,156 to \$289,453. This decrease is due primarily to a decrease in charges for services collected.

**BUDGETARY HIGHLIGHTS**

The city's receipts were \$154,309 less than budgeted. This is primarily due to less CDBG grant received than budgeted.

Total disbursements were \$31,349 more than the amounts budgeted. The City exceeded its budgeted expenditures in the public safety, general government and business type activities functions.

**DEBT ADMINISTRATION**

At June 30, 2013, the City had \$194,000 in general obligation bonds, compared to \$230,000 last year, as shown below.

Outstanding Debt at Year End

	<u>2012</u>	<u>June 30,</u> <u>2011</u>
General Obligation Bonds	\$ <u>194,000</u>	\$ <u>230,000</u>

Debt decreased as a result of principal retirement.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below it's constitutional debt limit of \$622,171.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Fremont, Iowa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the County now (October 2012) stands at 4.5%, versus 5.4% a year ago. This compares with the State's unemployment rate of 5.1% and the national rate of 7.9%.

Inflation in the State is slightly less than the national Consumer Price Index increase. The State's CPI increase was 4.64% for fiscal year 2012 compared with the national rate of 4.90%.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are \$840,898, a decrease of 24.77% from the final 2012 budget. Budgeted disbursements are expected to decrease by \$650,428 or 56.08% from prior year. The City has added no major new programs or initiatives to the 2013 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by \$331,500 by the close of fiscal year 2013.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, 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 the City Clerk, P. O. Box 301, Fremont, Iowa, 52561.

BASIC FINANCIAL STATEMENTS

CITY OF FREMONT, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Program Receipts</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Public safety	\$ 21,980	\$ 25	\$ -	\$ -
Public works	73,811	-	70,474	-
Culture and recreation	17,338	7,189	-	-
General government	45,189	5,638	-	-
Debt service	43,015	-	-	-
Capital projects	603,945	-	-	571,188
Total governmental activities	<u>805,278</u>	<u>12,852</u>	<u>70,474</u>	<u>571,188</u>
Business type activities:				
Water	309,757	56,505	-	-
Sewer	76,140	60,980	-	-
Total business type activities	<u>385,897</u>	<u>117,485</u>	<u>-</u>	<u>-</u>
Total	\$ <u>1,191,175</u>	\$ <u>130,337</u>	\$ <u>70,474</u>	\$ <u>571,188</u>
General receipts and transfers:				
Property tax levied for:				
General purposes				
Debt service				
Other City tax				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<u>Cash Basis Net Assets</u>				
Restricted:				
Expendable:				
Debt service				
Capital construction				
Unassigned				
Total cash basis net assets				

See Accompanying Notes to Financial Statements

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

---

Governmental Activities	Business Type Activities	Total
\$ (21,955)	\$ -	\$ (21,955)
(3,337)	-	(3,337)
(10,149)	-	(10,149)
(39,551)	-	(39,551)
(43,015)	-	(43,015)
<u>(32,757)</u>	-	<u>(32,757)</u>
<u>(150,764)</u>	-	<u>(150,764)</u>
-	(253,252)	(253,252)
-	<u>(15,160)</u>	<u>(15,160)</u>
-	<u>(268,412)</u>	<u>(268,412)</u>
<u>(150,764)</u>	<u>(268,412)</u>	<u>(419,176)</u>
119,514	-	119,514
2,761	-	2,761
63,430	-	63,430
770	4	774
<u>4,992</u>	-	<u>4,992</u>
<u>191,467</u>	<u>4</u>	<u>191,471</u>
40,703	(268,408)	(227,705)
<u>817,899</u>	<u>586,467</u>	<u>1,404,366</u>
\$ <u>858,602</u>	\$ <u>318,059</u>	\$ <u>1,176,661</u>
\$ -	\$ 136,608	\$ 136,608
271,590	-	271,590
<u>587,012</u>	<u>181,451</u>	<u>768,463</u>
\$ <u>858,602</u>	\$ <u>318,059</u>	\$ <u>1,176,661</u>

## CITY OF FREMONT, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Special Revenue</u>				<u>Capital Projects</u>	
	<u>General</u>	<u>Road Use Tax</u>	<u>Local Option Tax</u>	<u>Debt Service</u>	<u>Storm Water System</u>	<u>Total</u>
<b>RECEIPTS:</b>						
Property tax	\$ 102,761	\$ -	\$ -	\$ 19,514	\$ -	\$ 122,275
Other city tax	-	-	63,430	-	-	63,430
Licenses and permits	355	-	-	-	-	355
Use of money and property	12,431	-	-	-	-	12,431
Intergovernmental	-	70,479	-	-	571,188	641,667
Charges for service	25	-	-	-	-	25
Miscellaneous	5,798	-	-	-	-	5,798
Total receipts	<u>121,370</u>	<u>70,479</u>	<u>63,430</u>	<u>19,514</u>	<u>571,188</u>	<u>845,981</u>
<b>DISBURSEMENTS:</b>						
Operating:						
Public safety	21,980	-	-	-	-	21,980
Public works	23,480	50,331	-	-	-	73,811
Culture and recreation	17,338	-	-	-	-	17,338
General government	32,832	-	12,357	-	-	45,189
Debt service	-	-	-	43,015	-	43,015
Capital projects	-	-	-	-	603,945	603,945
Total disbursements	<u>95,630</u>	<u>50,331</u>	<u>12,357</u>	<u>43,015</u>	<u>603,945</u>	<u>805,278</u>
Excess (deficiency) of receipts over (under) disbursements	25,740	20,148	51,073	(23,501)	(32,757)	40,703
<b>CASH BALANCES - Beginning of year</b>	<u>253,301</u>	<u>257,469</u>	<u>26,931</u>	<u>(24,149)</u>	<u>304,347</u>	<u>817,899</u>
<b>CASH BALANCES - End of year</b>	<u>\$ 279,041</u>	<u>\$ 277,617</u>	<u>\$ 78,004</u>	<u>\$ (47,650)</u>	<u>\$ 271,590</u>	<u>\$ 858,602</u>
<b>Cash Basis Fund Balances</b>						
Restricted for:						
Capital projects	\$ -	\$ -	\$ -	\$ -	\$ 271,590	\$ 271,590
Unassigned	<u>279,041</u>	<u>277,617</u>	<u>78,004</u>	<u>(47,650)</u>	<u>-</u>	<u>587,012</u>
Total cash basis fund balances	<u>\$ 279,041</u>	<u>\$ 277,617</u>	<u>\$ 78,004</u>	<u>\$ (47,650)</u>	<u>\$ 271,590</u>	<u>\$ 858,602</u>

## CITY OF FREMONT, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	<u>Enterprise</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	
<u>Operating receipts:</u>			
Charges for service	\$ 56,505	\$ 60,980	\$ 117,485
<u>Operating disbursements:</u>			
Business type activities	<u>309,757</u>	<u>76,140</u>	<u>385,897</u>
Deficiency of operating receipts under operating disbursements	(253,252)	(15,160)	(268,412)
<u>Non-operating receipts:</u>			
Interest on investments	<u>-</u>	<u>4</u>	<u>4</u>
Deficiency of receipts under disbursements	(253,252)	(15,156)	(268,408)
<u>CASH BALANCES</u> - Beginning of year	<u>281,858</u>	<u>304,609</u>	<u>586,467</u>
<u>CASH BALANCES</u> - End of year	\$ <u>28,606</u>	\$ <u>289,453</u>	\$ <u>318,059</u>
<u>Cash Basis Fund Balances</u>			
Restricted for:			
Debt service	\$ -	\$ 136,608	\$ 136,608
Unassigned	<u>28,606</u>	<u>152,845</u>	<u>181,451</u>
Total cash basis fund balances	\$ <u>28,606</u>	\$ <u>289,453</u>	\$ <u>318,059</u>

CITY OF FREMONT, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fremont, Iowa is a political subdivision of the State of Iowa located in Mahaska County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fremont, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following commissions: County Emergency Management Commission, Mahaska County Landfill Commission and Area XV Regional Planning Commission.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

*Expendable Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

CITY OF FREMONT, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue Funds:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Fund accounts for the 1% local option sales tax.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Storm Water System Fund will be used for the construction of a new Storm Water System.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Fremont, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF FREMONT, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the Public Safety, General Government and Business Type Activities Functions.

NOTE 2: CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federal insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012 the City had the following investments:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Savings	\$ 63,191	\$ 63,191
Time deposits	<u>424,772</u>	<u>424,772</u>
Total City investments	\$ <u>487,963</u>	\$ <u>487,963</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF FREMONT, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 3: BONDS PAYABLE

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 38,000	\$ 5,820
2014	38,000	4,680
2015	39,000	3,540
2016	39,000	2,370
2017	<u>40,000</u>	<u>1,200</u>
	\$ <u>194,000</u>	\$ <u>17,610</u>

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

NOTE 4: PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2012, was \$5,277, equal to the required contributions for the year.

NOTE 5: RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2012 were \$5,037.

CITY OF FREMONT, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 5: RISK MANAGEMENT (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012 settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with the various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6: COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2012, is \$4,037. This liability has been computed based on rates of pay in effect at June 30, 2012.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Prior to June 30, 2012, the City had signed various contracts related to the sewer project that is summarized below:

Total commitments	\$	592,711
Amounts paid		<u>(506,057)</u>
Remaining commitments	\$	<u>86,654</u>

The remaining balance at June 30, 2012 will be paid as work on the project progresses.

NOTE 8: SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 23, 2013, the date the financial statements were available to be issued.

OTHER INFORMATION

CITY OF FREMONT, IOWA

BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS - OTHER INFORMATION  
YEAR ENDED JUNE 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>
<u>RECEIPTS:</u>			
Property tax	\$ 122,275	\$ -	\$ 122,275
Other City tax	63,430	-	63,430
License and permits	355	-	355
Use of money and property	12,431	4	12,435
Intergovernmental	641,667	-	641,667
Charges for service	25	117,485	117,510
Miscellaneous	<u>5,798</u>	<u>-</u>	<u>5,798</u>
Total receipts	<u>845,981</u>	<u>117,489</u>	<u>963,470</u>
<u>DISBURSEMENTS:</u>			
Public safety	21,980	-	21,980
Public works	73,811	-	73,811
Culture and recreation	17,338	-	17,338
General government	45,189	-	45,189
Debt service	43,015	-	43,015
Capital Projects	603,945	-	603,945
Business type activities	<u>-</u>	<u>385,897</u>	<u>385,897</u>
Total disbursements	<u>805,278</u>	<u>385,897</u>	<u>1,191,175</u>
Excess (deficiency) of receipts over (under) disbursements	40,703	(268,408)	(227,705)
<u>BALANCES - Beginning of year</u>	<u>817,899</u>	<u>586,467</u>	<u>1,404,366</u>
<u>BALANCES - End of year</u>	\$ <u>858,602</u>	\$ <u>318,059</u>	\$ <u>1,176,661</u>

<u>Budgeted Amounts</u>		<u>Final to</u>	
<u>Original/Final</u>		<u>Total</u>	
		<u>Variance</u>	
\$	118,173	\$	4,102
	43,266		20,164
	740		(385)
	10,600		1,835
	783,000		(141,333)
	161,600		(44,090)
	400		5,398
	<u>1,117,779</u>		<u>(154,309)</u>
	18,555		(3,425)
	95,300		21,489
	21,380		4,042
	45,151		(38)
	43,015		-
	723,000		119,055
	<u>213,425</u>		<u>(172,472)</u>
	<u>1,159,826</u>		<u>(31,349)</u>
	(42,047)		(185,658)
	<u>1,248,778</u>		<u>155,588</u>
\$	<u>1,206,731</u>	\$	<u>(30,070)</u>

CITY OF FREMONT IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

JUNE 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, general government and business type activities functions.

SUPPLEMENTARY INFORMATION

CITY OF FREMONT, IOWA  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
<u>General Obligation Bonds:</u>			
Sewer project	January 4, 1999	3.92%	\$ 205,000
Sewer project	December 11, 1997	3.92%	<u>396,000</u>
Total			\$ <u>601,000</u>

SCHEDULE 1

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 80,000	\$ -	\$ 11,000	\$ 69,000	\$ 2,400	\$ -
<u>150,000</u>	<u>-</u>	<u>25,000</u>	<u>125,000</u>	<u>4,500</u>	<u>-</u>
\$ <u>230,000</u>	\$ <u>-</u>	\$ <u>36,000</u>	\$ <u>194,000</u>	\$ <u>6,900</u>	\$ <u>-</u>

CITY OF FREMONT, IOWA

BOND MATURITIES  
JUNE 30, 2012

General Obligation - Bonds

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Series 1997</u>			<u>Series 1999</u>			<u>Total</u>
	<u>Interest</u> <u>Rates</u>		<u>Amount</u>	<u>Interest</u> <u>Rates</u>		<u>Amount</u>	
2013	3.92	%	\$ 25,000	3.92	%	\$ 13,000	\$ 38,000
2014	3.92		25,000	3.92		13,000	38,000
2015	3.92		25,000	3.92		14,000	39,000
2016	3.92		25,000	3.92		14,000	39,000
2017	3.92		<u>25,000</u>	3.92		<u>15,000</u>	<u>40,000</u>
Total			\$ <u>125,000</u>			\$ <u>69,000</u>	\$ <u>194,000</u>

## CITY OF FREMONT, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS

FOR THE YEARS ENDED JUNE 30, 2012, 2010 AND 2006

	<u>2012</u>	<u>2010</u>	<u>2006</u>
<u>RECEIPTS:</u>			
Property tax	\$ 122,275	\$ 117,844	\$ 100,862
Other city tax	63,430	52,920	52,692
Licenses and permits	355	1,170	1,000
Use of money and property	12,431	7,710	12,504
Intergovernmental	641,667	79,464	63,443
Charges for service	25	11,943	38,275
Miscellaneous	<u>5,798</u>	<u>1,679</u>	<u>2,589</u>
Total	\$ <u>845,981</u>	\$ <u>272,730</u>	\$ <u>271,365</u>
<u>DISBURSEMENTS:</u>			
Operating:			
Public safety	\$ 21,980	\$ 18,210	\$ 15,115
Public works	73,811	140,098	56,857
Culture and recreation	17,338	16,840	14,730
General government	45,189	46,995	36,622
Debt service	43,015	45,211	46,833
Capital projects	<u>603,945</u>	<u>14,160</u>	<u>-</u>
Total	\$ <u>805,278</u>	\$ <u>281,514</u>	\$ <u>170,157</u>

See Accompanying Independent Auditor's Report

CITY OF FREMONT, IOWA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	11-WS-023	\$ 2,957
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-DRI-287	<u>568,231</u>
Total			\$ <u>571,188</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Fremont, Iowa and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities and each major fund of the City of Fremont, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 23, 2013. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2011. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Fremont, Iowa is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Fremont, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Fremont, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Fremont, Iowa'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 and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fremont, Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fremont, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fremont, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Fremont, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fremont, Iowa and other parties to whom the City of Fremont, Iowa may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Fremont, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
September 23, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the City of Fremont, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Fremont, Iowa's major federal program for the year ended June 30, 2012. The City of Fremont, Iowa's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Fremont, Iowa's management. Our responsibility is to express an opinion on the City of Fremont, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fremont, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fremont, Iowa's compliance with those requirements.

In our opinion, the City of Fremont, Iowa complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City of Fremont, Iowa is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Fremont, Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion 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 expressing an opinion on the effectiveness of the City of Fremont, Iowa's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Fremont, Iowa's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-B-12 to be a material weakness.

The City of Fremont, Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Fremont, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fremont, Iowa and other parties to whom the City of Fremont, Iowa may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, LARKIN & CO. P.C.

September 23, 2013  
Ottumwa, Iowa

CITY OF FREMONT, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Results

- a. A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- c. The audit did not disclose any noncompliance which is material to the financial statements.
- d. A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Fremont, Iowa did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF FREMONT, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

Part III: Findings and Questioned Costs For Federal Awards: (Continued)

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii  
Pass-through Agency Number: 11-WS-023 and 08-DRI-287  
Federal Award Year: 2008 and 2011  
U.S. Department of Housing and Urban Development  
Passed through the Iowa Economic Development Authority

III-B-12 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-12.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety, general government and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-12 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-12 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

IV-F-12 Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

IV-G-12 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-12 Financial Condition – The Debt Service Fund had a deficit balance of \$47,650 at June 30, 2012.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – On March 5, 2013, a transfer was made to correct this.

Conclusion – Response accepted.