

***CITY OF UPPER SANDUSKY
WYANDOT COUNTY, OHIO***

Audit Report

For the Year Ended December 31, 2002

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

Honorable Mayor and Members of City Council
City of Upper Sandusky
119 North 7th Street
Upper Sandusky, OH 43351

We have reviewed the Independent Auditor's Report of the City of Upper Sandusky, Wyandot County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Upper Sandusky is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 5, 2003

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CITY OF UPPER SANDUSKY, OHIO
Audit Report
For the Year Ended December 31, 2002

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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REPORT OF INDEPENDENT ACCOUNTANTS

The Honorable Mayor and Members of City Council
City of Upper Sandusky
Upper Sandusky, Ohio

We have audited the accompanying general purpose financial statements of the City of Upper Sandusky, Ohio (the City), as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose 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 *Government 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 2002 and the results of its operations and cash flows of its proprietary fund types 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 a report dated June 12, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Upper Sandusky, Ohio taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Charles E. Harris & Associates, Inc.
June 12, 2003

City of Upper Sandusky, Ohio

Combined Balance Sheet
All Fund Types and Account Groups

December 31, 2002

	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Agency	General Fixed Assets		General Long-Term Obligations
Assets and Other Debits									
Assets									
Equity in Pooled Cash	\$ 117,458	\$ 387,764	\$ 571,774	\$ 581,818	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,658,814
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0	40,279	0	0	40,279
Receivables:									
Taxes	723,265	55,044	183,480	0	0	0	0	0	961,789
Accounts	40,381	1,343	0	336,584	0	0	0	0	378,308
Due from Other Funds	0	0	0	0	110,500	0	0	0	110,500
Due from Other Governments	40,761	99,738	7,652	0	0	0	0	0	148,151
Materials and Supplies									
Inventory	4,093	23,554	0	14,331	0	0	0	0	41,978
Notes Receivable	0	96,005	0	0	0	0	0	0	96,005
Prepaid Items	28,374	14,728	0	17,894	0	0	0	0	60,996
Fixed Assets, (Net where applicable of Accumulated Depreciation)	0	0	0	15,759,759	0	0	5,053,784	0	20,813,543
Other Debits									
Amount to be Provided from General Government Resources	0	0	0	0	0	0	0	6,195,078	6,195,078
Total Assets	\$ 954,332	\$ 678,176	\$ 762,906	\$ 16,710,386	\$ 110,500	\$ 40,279	\$ 5,053,784	\$ 6,195,078	\$ 30,505,441
Liabilities									
Accounts Payable	\$ 59,923	\$ 19,203	\$ 71,790	\$ 61,643	\$ 0	\$ 0	\$ 0	\$ 0	\$ 212,559
Accrued Wages and Benefits	38,698	5,341	0	19,895	0	0	0	0	63,934
Compensated Absences Payable	37,300	4,518	0	53,759	0	0	0	155,413	250,990
Due to Other Funds	58,106	10,340	0	42,054	0	0	0	0	110,500
Due to Other Governments	72,414	12,413	0	30,653	0	0	0	0	115,480
Deferred Revenue	400,928	71,365	25,031	0	0	0	0	0	497,324
Undistributed Monies	0	0	0	0	0	18,419	0	0	18,419
Payroll Withholdings	0	0	0	0	0	21,860	0	0	21,860
Claims Payable	0	0	0	0	110,500	0	0	0	110,500
Capital Leases Payable	0	0	0	0	0	0	0	93,322	93,322
OWDA Loans Payable	0	0	0	0	0	0	0	5,580,443	5,580,443
OPWC Loans Payable	0	0	0	0	0	0	0	365,900	365,900
Total Liabilities	667,369	123,180	96,821	208,004	110,500	40,279	0	6,195,078	7,441,231
Fund Equity and Other Credits									
Investment in General Fixed Assets	0	0	0	0	0	0	5,053,784	0	5,053,784
Contributed Capital	0	0	0	10,998,009	0	0	0	0	10,998,009
Retained Earnings:									
Unreserved	0	0	0	5,504,373	0	0	0	0	5,504,373
Fund Balance:									
Reserved for Encumbrances	0	0	4,123,957	0	0	0	0	0	4,123,957
Reserved for Inventory	4,093	23,554	0	0	0	0	0	0	27,647
Reserved for Prepaid Items	28,374	14,728	0	0	0	0	0	0	43,102
Reserved for Notes Receivable	0	96,005	0	0	0	0	0	0	96,005
Unreserved:									
Undesignated	254,496	420,709	(3,457,872)	0	0	0	0	0	(2,782,667)
Total Fund Equity	286,963	554,996	666,085	16,502,382	0	0	5,053,784	0	23,064,210
Total Liabilities and Fund Equity	\$ 954,332	\$ 678,176	\$ 762,906	\$ 16,710,386	\$ 110,500	\$ 40,279	\$ 5,053,784	\$ 6,195,078	\$ 30,505,441

See accompanying notes to the general purpose financial statements.

City of Upper Sandusky, Ohio

Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types

For the Year December 31, 2002

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only) 2002
Revenues:				
Municipal Income Tax	\$ 564,357	\$ 325,311	\$ 1,081,254	\$ 1,970,922
Property and Other Taxes	728,402	0	0	728,402
Charges for Services	19,295	36,550	0	55,845
Licenses and Permits	13,990	0	0	13,990
Fines and Forfeitures	409,401	23,653	0	433,054
Intergovernmental	622,569	268,567	688,313	1,579,449
Investment Income	8,679	15,953	7,304	31,936
Other	100,776	29,893	1,441	132,110
Total Revenue	2,467,469	699,927	1,778,312	4,945,708
Expenditures:				
Current:				
General Government:				
Legislative and Executive	544,187	0	0	544,187
Judicial	644,369	32,530	0	676,899
Security of Persons and Property	1,366,259	10,079	0	1,376,338
Public Health and Welfare	59,881	0	0	59,881
Transportation	0	301,888	0	301,888
Community Environment	44,844	1,896	0	46,740
Leisure Time Activities	0	336,811	0	336,811
Capital Outlay	39,437	45,048	4,974,396	5,058,881
Debt Service:				
Principal Retirement	20,101	0	202,957	223,058
Interest and Fiscal Charges	2,751	0	49,937	52,688
Total Expenditures	2,721,829	728,252	5,227,290	8,677,371
Excess of Revenues Over (Under) Expenditures	(254,360)	(28,325)	(3,448,978)	(3,731,663)
Other Financing Sources (Uses):				
Proceeds of Loans	0	0	3,785,463	3,785,463
Inception of Captial Leases	38,940	0	0	38,940
Total Other Sources (Uses)	38,940	0	3,785,463	3,824,403
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(215,420)	(28,325)	336,485	92,740
Fund Balances (Deficit) at Beginning of Year	502,177	582,166	329,600	1,413,943
Increase (Decrease) in Reserve for Inventory	206	1,155	0	1,361
Fund Balances (Deficits) at End of Year	\$ 286,963	\$ 554,996	\$ 666,085	\$ 1,508,044

See accompanying notes to the general purpose financial statements

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types

For the Year Ended December 31, 2002

	Governmental Fund Types									Totals		
	General Fund			Special Revenue Funds			Capital Projects Funds			(Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:												
Municipal Income Tax	\$ 920,000	\$ 843,650	\$ (76,350)	\$ 345,000	\$ 315,750	\$ (29,250)	\$ 1,035,000	\$ 1,052,499	\$ 17,499	\$ 2,300,000	\$ 2,211,899	\$ (88,101)
Property and Other Taxes	391,000	394,626	3,626	0	0	0	0	0	0	391,000	394,626	3,626
Charges for Services	19,675	19,295	(380)	30,500	36,550	6,050	0	0	0	50,175	55,845	5,670
Licenses and Permits	20,580	13,990	(6,590)	0	0	0	0	0	0	20,580	13,990	(6,590)
Fines and Forfeitures	466,000	411,610	(54,390)	21,500	23,886	2,386	0	0	0	487,500	435,496	(52,004)
Intergovernmental	856,000	687,563	(168,437)	279,000	265,221	(13,779)	763,500	716,361	(47,139)	1,898,500	1,669,145	(229,355)
Investment Income	30,000	8,679	(21,321)	21,700	15,953	(5,747)	50,000	7,304	(42,696)	101,700	31,936	(69,764)
Other	18,900	100,776	81,876	30,000	29,893	(107)	2,000	1,441	(559)	50,900	132,110	81,210
Total Revenues	2,722,155	2,480,189	(241,966)	727,700	687,253	(40,447)	1,850,500	1,777,605	(72,895)	5,300,355	4,945,047	(355,308)
Expenditures:												
Current:												
General Government:												
Legislative and Executive	725,921	561,016	164,905	0	0	0	0	0	0	725,921	561,016	164,905
Judicial	784,849	653,900	130,949	43,000	32,530	10,470	0	0	0	827,849	686,430	141,419
Security of Persons and Property	1,526,847	1,354,491	172,356	25,000	10,079	14,921	0	0	0	1,551,847	1,364,570	187,277
Public Health and Welfare	70,000	59,881	10,119	0	0	0	0	0	0	70,000	59,881	10,119
Transportation	0	0	0	346,698	318,492	28,206	0	0	0	346,698	318,492	28,206
Community Environment	49,515	44,844	4,671	50,000	1,430	48,570	0	0	0	99,515	46,274	53,241
Leisure Time Activities	0	0	0	419,921	333,582	86,339	0	0	0	419,921	333,582	86,339
Capital Outlay	3,000	497	2,503	75,000	44,335	30,665	7,159,937	9,191,956	(2,032,019)	7,237,937	9,236,788	(1,998,851)
Debt Service:												
Principal Retirement	0	0	0	0	0	0	167,000	158,773	8,227	167,000	158,773	8,227
Interest and Fiscal Charges	0	0	0	0	0	0	50,000	43,680	6,320	50,000	43,680	6,320
Total Expenditures	3,160,132	2,674,629	485,503	959,619	740,448	219,171	7,376,937	9,394,409	(2,017,472)	11,496,688	12,809,486	(1,312,798)
Excess of Revenues Over (Under) Expenditures	(437,977)	(194,440)	243,537	(231,919)	(53,195)	178,724	(5,526,437)	(7,616,804)	(2,090,367)	(6,196,333)	(7,864,439)	(1,668,106)
Other Financing Sources (Uses):												
Other Financing Sources	0	0	0	18,800	18,518	(282)	0	0	0	18,800	18,518	(282)
Proceeds of Loans	0	0	0	0	0	0	5,326,400	3,785,463	(1,540,937)	5,326,400	3,785,463	(1,540,937)
Total Other Financing Sources (Uses)	0	0	0	18,800	18,518	(282)	5,326,400	3,785,463	(1,540,937)	5,345,200	3,803,981	(1,541,219)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(437,977)	(194,440)	243,537	(213,119)	(34,677)	178,442	(200,037)	(3,831,341)	(3,631,304)	(851,133)	(4,060,458)	(3,209,325)
Fund Balances (Deficit) at Beginning of Year	270,645	270,645	0	401,800	401,800	0	207,368	207,368	0	879,813	879,813	0
Prior Year Encumbrances Appropriated	41,253	41,253	0	20,640	20,640	0	0	0	0	61,893	61,893	0
Fund Balances (Deficit) at End of Year	\$ (126,079)	\$ 117,458	\$ 243,537	\$ 209,321	\$ 387,763	\$ 178,442	\$ 7,331	\$ (3,623,973)	\$ (3,631,304)	\$ 90,573	\$ (3,118,752)	\$ (3,209,325)

See accompanying notes to the general purpose financial statements.

City of Upper Sandusky, Ohio

Combined Statement of Revenues,
Expenses and Changes in Fund Equity
All Proprietary Fund Types

For the Year Ended December 31, 2002

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
Operating Revenues:			
Charges for Services	\$ 2,239,410	\$ 417,699	\$ 2,657,109
Other	44,564	0	44,564
Total Operating Revenue	2,283,974	417,699	2,701,673
Operating Expenses:			
Personal Services	963,603	0	963,603
Contractual Services	520,159	0	520,159
Claims Expense	0	417,699	417,699
Materials and Supplies	358,697	0	358,697
Other Operating Expenses	67,120	0	67,120
Depreciation	366,707	0	366,707
Total Operating Expenses	2,276,286	417,699	2,693,985
Operating Income (Loss)	7,688	0	7,688
Non-Operating Revenues (Expenses):			
Interest Income	9,334	0	9,334
Refund of Prior Year's Receipts	(10,958)	0	(10,958)
Total Non-Operating Revenues (Expenses)	(1,624)	0	(1,624)
Net Income (Loss)	6,064	0	6,064
Depreciation on Fixed Assets Acquired by Contributed Capital	118,972	0	118,972
Retained Earnings at Beginning of Year	5,379,337	0	5,379,337
Retained Earnings at End of Year	5,504,373	0	5,504,373
Contributed Capital at Beginning of Year	7,136,193	0	7,136,193
Contributions from Other Funds, Net	3,980,788	0	3,980,788
Depreciation on Fixed Assets Acquired by Contributed Capital	(118,972)	0	(118,972)
Contributed Capital at End of Year	10,998,009	0	10,998,009
Total Fund Equity at End of Year	\$ 16,502,382	\$ 0	\$ 16,502,382

See accompanying notes to the general purpose financial statements.

City of Upper Sandusky, Ohio

Combined Statement of Cash Flows
All Proprietary Fund Types

For the Year Ended December 31, 2002

	Proprietary Fund Types		Total Proprietary Funds
	Enterprise	Internal Service	
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 2,247,361	\$ 26,793	\$ 2,274,154
Cash Paid to Employees	(927,501)	0	(927,501)
Cash Paid for Goods and Services	(944,328)	(26,793)	(971,121)
Net Cash Provided by Operating Activities	375,532	0	375,532
Cash Flows from Investing Activities:			
Interest on Investments	9,334	0	9,334
Net Cash Provided by Investing Activities	9,334	0	9,334
Cash Flows from Capital & Related Financing Activities:			
Purchase of Fixed Assets	(264,060)	0	(264,060)
Net Cash Provided by Capital and Related Financing Activities	(264,060)	0	(264,060)
Change in Cash	120,806	0	120,806
Cash Balance, Beginning of Year	461,012	0	461,012
Cash Balance, End of Year	\$ 581,818	\$ 0	\$ 581,818
Operating Income	\$ 7,688	\$ 0	\$ 7,688
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:			
Depreciation Expense	366,707	0	366,707
Net (Increase) Decrease in Accounts Receivable	(36,613)	0	(36,613)
(Increase) Decrease in Due from Other Funds	0	(62,810)	(62,810)
(Increase) Decrease in Inventories	32,971	0	32,971
(Increase) Decrease in Prepaid Items	(15,560)	0	(15,560)
Increase (Decrease) in Accounts Payable	(51,056)	0	(51,056)
Increase (Decrease) in Accrued Wages and Wages	4,021	0	4,021
Increase (Decrease) in Due to Other Governments	3,328	0	3,328
Increase (Decrease) in Compensated Absences Payable	4,153	0	4,153
Increase (Decrease) in Due to Other Funds	24,600	0	24,600
Increase (Decrease) in Claims Payable	0	62,810	62,810
Increase (Decrease) in Accounts Payable from Fixed Asset Purchases	35,293	0	35,293
Total Adjustments	367,844	0	367,844
Net Cash Provided by Operating Activities	\$ 375,532	\$ 0	\$ 375,532

See accompanying notes to the general purpose financial statements.

City of Upper Sandusky, Ohio

Combined Statement of Revenues, Expenses, and
Changes in Fund Equity - Budget and Actual (Budget Basis)
All Proprietary Funds

For the Year Ended December 31, 2002

	----- Proprietary Fund Types -----						----- Totals -----		
	----- Enterprise -----			----- Internal Service -----			----- (Memorandum Only) -----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:									
Charges for Services	\$ 2,260,000	\$ 2,202,797	\$ (57,203)	\$ 36,000	\$ 26,793	\$ (9,207)	\$ 2,296,000	\$ 2,229,590	\$ (66,410)
Other Operating Revenues	30,000	44,564	14,564	0	0	0	30,000	44,564	14,564
Total Operating Revenue	2,290,000	2,247,361	(42,639)	36,000	26,793	(9,207)	2,326,000	2,274,154	(51,846)
Operating Expenses:									
Current:									
Personal Services	998,600	927,501	71,099	0	0	0	998,600	927,501	71,099
Contractual Services	647,068	546,280	100,788	0	0	0	647,068	546,280	100,788
Claims and Judgments	0	0	0	36,000	26,793	9,207	36,000	26,793	9,207
Materials and Supplies	410,101	330,928	79,173	0	0	0	410,101	330,928	79,173
Other Non-Operating Expenses	110,640	67,120	43,520	0	0	0	110,640	67,120	43,520
Capital Outlay	415,185	264,060	151,125	0	0	0	415,185	264,060	151,125
Total Operating Expenses	2,581,594	2,135,889	445,705	36,000	26,793	9,207	2,617,594	2,162,682	454,912
Operating Income (Loss)	(291,594)	111,472	403,066	0	0	0	(291,594)	111,472	403,066
Non-Operating Revenues (Expenses):									
Interest Income	22,000	9,334	(12,666)	0	0	0	22,000	9,334	(12,666)
Total Non-Operating Revenues(Expenses)	22,000	9,334	(12,666)	0	0	0	22,000	9,334	(12,666)
Net Income (Loss)	(269,594)	120,806	390,400	0	0	0	(269,594)	120,806	390,400
Fund Equity (Deficit) at Beginning of Year	391,569	391,569	0	0	0	0	391,569	391,569	0
Prior Year Encumbrances Appropriated	69,444	69,444	0	0	0	0	69,444	69,444	0
Fund Equity (Deficit) at End of Year	\$ 191,419	\$ 581,819	\$ 390,400	\$ 0	\$ 0	\$ 0	\$ 191,419	\$ 581,819	\$ 390,400

See accompanying notes to the general purpose financial statements.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Upper Sandusky, Ohio (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under the provisions of GASB No. 20 the City has elected not to apply Financial Accounting Standards Board Statements and interpretations issued after November 30, 1989 to its proprietary activities. Election of this approach to accounting for proprietary activities by the City has required no change from prior years. The more significant of the City's accounting policies are described below:

A. DESCRIPTION OF THE ENTITY

The City of Upper Sandusky 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 the mayor-council form of charter government as approved on October 25, 1976. The City provides police protection within its boundaries, and fire protection to its citizens and adjacent townships. The City provides basic utilities in the form of water, waste water treatment and sanitation pick up. The City constructs and maintains streets and sidewalks within the City. The City also operates a swimming pool and maintains three parks.

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; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units 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. There are no component units of the City.

The City of Upper Sandusky's Municipal Court has been included in the City's financial statements as an agency fund. The Judge is an elected City official who has a fiduciary responsibility for the collection and distribution of court fees and fines.

B. FUND ACCOUNTING

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of the City's general activities, including the collection and disbursement of earmarked monies (special revenue funds) and the acquisition or construction of general fixed assets (capital projects funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. When these assets are held under the terms of a formal trust agreement, a non-expendable trust fund or an expendable trust fund is used. The terms "non-expendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. The City has no trust funds. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

Account Groups make a clear distinction between fixed assets related to a specific fund and those of general government, and between long term liabilities related to specific funds and those of a general nature, the following account groups are used;

The General Fixed Assets Account Group is used to account for fixed assets other than those accounted for in the proprietary funds. These assets do not represent financial resources available for expenditure.

The General Long-Term Debt Account Group is used to account for all unmatured long-term obligations of the City that are not a specific liability of the proprietary funds.

C. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

Those revenues susceptible to accrual are property taxes, city income taxes, intergovernmental revenues, interest revenue and charges for services, billed and unbilled.

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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year. For the City, available means expected to be received within thirty days of fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditures requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent periods when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Property taxes measurable as of December 31, and delinquent property taxes, whose availability is indeterminate and which are not intended to finance the current year, have also been recorded as deferred revenue as further described in Note 5.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

D. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established time-table. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution 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 required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of Council.

Tax Budget:

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources:

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The 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 projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal 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 appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

Appropriations:

A temporary appropriation resolution to control expenditures may be passed on or about January 1 of each year for the period of January 1 to March 31. An annual appropriation resolution must be passed by April 1 of each year for the period January 1 to December 31. The appropriation resolution fixes spending authority at the fund, department, and object level. The appropriation resolution 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 a resolution of Council. Several supplemental appropriation resolutions were legally enacted by Council during the year. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts including all amendments and modifications.

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 and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures.

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 appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

While reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

E. CASH AND INVESTMENTS

To improve cash management, cash received by the City is pooled in a central bank account. Monies for all funds are maintained in this account or are temporarily used to purchase short term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet. Under existing Ohio statutes all investment earnings accrue to the general fund except those specifically related to certain special revenue, capital projects, and enterprise funds.

During fiscal year 2002, investments were limited to certificates of deposits and money market funds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturity of three months or less are considered to be cash equivalents.

F. INVENTORIES

Inventories of governmental funds are stated at cost while inventories of proprietary funds are valued at the lower of cost (first in, first out) or market. The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the enterprise funds when used. Recorded inventories in the governmental fund types are equally offset by a fund balance reserve which indicates that they do not constitute available expendable resources even though they are a component of net current assets.

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2002 are recorded as prepaid items.

H. FIXED ASSETS

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed Assets utilized in the proprietary funds are capitalized in the fund. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group and proprietary fund types are depreciated. Depreciation of buildings, equipment and vehicles is computed using the straight-line method.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

I. COMPENSATED ABSENCES

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 16, Accounting for Compensated Absences. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future.

J. LONG-TERM OBLIGATIONS

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

K. INTERFUND ASSETS/LIABILITIES

Receivables and payables resulting from transactions between funds for goods received or services provided and agency fund assets due to operating funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables." There were no short-term interfund loans in 2002.

L. FUND EQUITY

Contributed capital is recorded in proprietary funds that have received contributions from other funds. Reserves of fund balance in governmental fund types represent those portions of fund balance that are not available for current appropriation or are legally segregated for a specific future use. Fund balances are reserved for encumbrances, inventory, prepaid items and notes receivable. Designated fund balances represent tentative plans for future use of financial resources.

M. INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. MEMORANDUM ONLY - TOTAL COLUMNS

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - DEPOSITS AND INVESTMENTS

Monies held by the City are classified by State Statute into three categories. Active monies mean an amount of public moneys determined to be necessary to meet current demand upon the City treasury. Active monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either 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.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

Interim deposits are deposits of 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 deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

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 the securities listed above provided 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 or its political subdivisions, provided that such political subdivisions are located wholly or partly with the City;
5. Time certificate of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

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, if the securities are not presented by a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

Deposits

Deposits. At year-end, the carrying amount of the City's deposits, excluding cash on hand of \$650 was \$1,698,443 and the bank balance was \$1,844,946. Of the bank balance:

1. \$199,551 was covered by federal depository insurance;
2. \$1,645,395 was uninsured and uncollateralized. Although all statutory requirements for these deposits of money had been followed, non-compliance with federal requirements could potentially subject the City a successful claim by the FDIC.

Investments: There were no investments at year-end as the general depository checking and money market funds were receiving a higher interest rate than investments.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 3 -- MUNICIPAL INCOME TAX

The City levies and collects an income tax of one percent 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.

NOTE 4 - PROPERTY TAXES

Property taxes, include amounts levied against all real, public utility, and tangible personal (used in business) property located in the City. Real property taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value. Real property taxes are collected in and intended to finance the year following the year in which they are levied.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 50% of cost). Tangible personal property taxes attach as a lien and are levied January 1 of the current year, the same year in which collections are made. Tangible personal property assessments are 27% of true value.

The assessed value upon which the 2002 taxes were collected was \$137,510,120. The full tax rate for all City operations applied to real property for fiscal year ended December 31, 2002 was \$3.10 per \$1,000 of assessed valuation.

After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$2.08 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$2.40 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Real Property - 2001 Valuation:

Residential/Agricultural	\$ 64,488,230
Public Utilities	24,780
Commercial/Industrial/Mineral	29,432,100

Tangible Personal Property - 2001 Valuation:

General	\$ 40,032,870
Public Utilities	<u>3,532,140</u>

Total Assessed Valuation	<u>\$ 137,510,120</u>
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Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 20; if paid semi-annually, the first payment is due January 20 with remainder payable by June 20. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable as of December 31, 2002. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not intended to finance 2002 operations. The receivable is therefore offset by a credit to deferred revenue.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 5 - RECEIVABLES

Receivables at December 31, 2002, consisted of taxes, interest, accounts (billings for user charged services, including unbilled utility services) and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full, including accounts receivable which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

A summary of the principal items of receivables follows:

<u>General Fund</u>	<u>Amount</u>
Taxes:	
Accrued Property Taxes - Current	\$ 333,986
Accrued Property Taxes - Delinquent	3,684
Accrued City Income Taxes	385,595
Due from Other Governments	40,761
Accounts Receivable	<u>40,381</u>
Total	804,407
 <u>Special Revenue Funds</u>	
Accrued City Income Tax	55,044
Accounts Receivable	1,343
Due from Other Governments	99,738
Notes Receivable	<u>96,005</u>
Total	252,130
 <u>Capital Projects Funds</u>	
Accrued City Income Tax	183,480
Due from Other Governments	<u>7,652</u>
Total	191,132
 <u>Enterprise Funds</u>	
Accounts Receivable Billed	28,645
Accounts Receivable Unbilled	<u>307,939</u>
Total	336,584
 <u>Internal Service Fund</u>	
Due From Other Funds	<u>110,500</u>
TOTAL	<u>\$ 1,694,753</u>

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 6 - FIXED ASSETS

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	<u>Balance</u> <u>1/1/2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2002</u>
Land	\$ 592,172	\$ 234,487	\$ -	\$ 826,659
Buildings	1,881,435	16,475	-	1,897,910
Improvements Other than Buildings	825,595	565,090	-	1,390,685
Machinery & Equip.	1,259,638	71,266	(6,746)	1,324,158
Vehicles	<u>1,288,930</u>	<u>45,280</u>	<u>(61,898)</u>	<u>1,272,312</u>
Total	5,847,770	932,598	(68,644)	6,711,724
Less: Accumulated Depreciation	<u>(1,432,066)</u>	<u>(284,827)</u>	<u>58,953</u>	<u>(1,657,940)</u>
Total Assets	<u>\$ 4,415,704</u>	<u>\$ 647,771</u>	<u>\$ (9,691)</u>	<u>\$5,053,784</u>

The following is a summary of proprietary fund-type fixed assets at December 31, 2002:

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>
Land	\$ 572,922	\$ 270,820	\$ -
Land - Contributed	39,500	-	-
Buildings	1,205,060	495,810	-
Buildings - Contributed	-	3,357,719	-
Improvements Other Than Buildings	43,992	16,972	-
Imp. Other Than Bldg. Contr. Cap.	96,500	-	-
Vehicles	62,200	87,049	141,481
Equipment	569,806	556,545	491,454
Infrastructure	871,812	2,398,408	-
Infrastructure - Contributed	1,179,784	3,392,175	-
Construction In Progress - Contributed	<u>3,785,463</u>	<u>-</u>	<u>-</u>
Total Fixed Assets	8,412,139	10,575,498	632,935
Less: Accumulated Depreciation	<u>(1,462,585)</u>	<u>(2,056,286)</u>	<u>(341,942)</u>
Net Fixed Assets	<u>\$ 6,949,554</u>	<u>\$ 8,519,212</u>	<u>\$ 290,993</u>

In general fixed asset account group and proprietary funds, the following estimated useful lives are used to compute depreciation:

Buildings	40 years
Equipment	8-20 years
Vehicles	3-5 years
Infrastructure	80 years

NOTE 7 - CONTRIBUTED CAPITAL

During the year, contributed capital increased by the following amounts:

Contributed Capital, January 1	\$ 7,136,193
Total Additions	<u>3,980,788</u>
Total Contributed Capital	11,116,981
Depreciation on Contributed Capital	<u>(118,972)</u>
Contributed Capital, December 31	<u>\$ 10,998,009</u>

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 8 -- LONG-TERM DEBT AND OTHER OBLIGATIONS

Long-Term debt and other obligations of the City at December 31, 2002, were as follows:

	<u>1/1/2002</u> <u>Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>12/31/2002</u> <u>Balance</u>
General Obligation Debt:				
1996 Sewer Construction Refinancing 2.2% Issued 1/1/97 Matures 2014	\$ 388,793	\$ -	\$ 23,995	\$ 364,798
Ohio Public Works Loan Interest Free	378,000	-	27,000	351,000
WWTP Improvements 242 SRF Interest Free	190,906	-	12,835	178,071
Sewer Construction 217 SRF Matures 2014	385,754	-	27,764	357,990
WWTP Improvements 240 SRF Matures 2015	976,200	-	67,179	909,021
OWDA Reservoir Loan	-	3,770,563	-	3,770,563
OPWC Issue 2 Loan Interest Free	-	14,900	-	14,900
Total General Obligation. Debt	<u>\$ 2,319,653</u>	<u>\$ 3,785,463</u>	<u>\$ 158,773</u>	<u>\$ 5,946,343</u>
Other:				
Compensated Absences	151,894	3,519	-	155,413
Capital Leases	<u>118,667</u>	<u>38,940</u>	<u>64,285</u>	<u>93,322</u>
Total Debt	<u>\$ 2,590,214</u>	<u>\$ 3,979,816</u>	<u>\$ 374,952</u>	<u>\$ 6,195,078</u>

Outstanding general obligation notes consist of a WWTP Improvement issue. General obligation notes are a direct obligation of the City of Upper Sandusky for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

The annual requirements to amortize all bonds and loans outstanding as of December 31, 2002, including interest payments of \$2,304,994 are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>General Obligation Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2003	\$ 161,693	\$ 40,763
2004	282,489	209,622
2005	291,097	202,034
2006	300,036	193,095
2007	309,320	183,812
2008-2012	1,699,019	766,734
2013-2017	1,382,777	484,797
2018-2022	1,236,409	216,964
2023	<u>283,503</u>	<u>7,172</u>
Total Debt	<u>\$ 5,946,343</u>	<u>\$ 2,304,994</u>

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 9 -- CAPITAL LEASE

The City has entered into a lease agreement as lessee for financing the acquisition of a police and municipal court copiers, general office copier, fire truck and various machinery. These lease agreements qualify as capital leases for accounting purposes (titles transferable at the end of the lease term) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of inception. The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at December 31, 2002:

<u>Year</u> <u>Ending December 31</u>	<u>General</u> <u>Long-Term Debt</u>
2003	\$ 51,423
2004	48,221
2005	2,436
2006	<u>1,218</u>
Total Minimum Lease Payments	103,298
Less Amount Representing Interest	<u>9,976</u>
Present Value of Future Minimum Lease Payments	<u>\$ 93,322</u>

NOTE 10 -- PENSION AND RETIREMENT PLANS

The employees of the City of Upper Sandusky are covered by either the Ohio Public Employees Retirement System or the Ohio Police and Fireman's Pension Fund. The State of Ohio accounts for the activities of the retirement systems and the amounts of these funds are not reflected in the accompanying financial statements.

Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) of Ohio is a cost-sharing multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5 percent for employees. The employer contribution rate was 13.55 percent of covered payroll. The City's contributions for pension obligations to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$214,958, \$178,576, and \$179,139; respectively; 76.05 percent representing the paid contribution for 2002 and 100% for 2001 and 2000. \$51,480 representing the unpaid contribution for 2002, is recorded as an expenditure to the individual funds that incurred the costs.

Ohio Police and Fireman's Pension Fund (OP&F)

The City of Upper Sandusky contributes to the Ohio Police and Fireman's Pension Fund, 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. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fireman's Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2002, 2001 and 2000 were \$116,013, \$105,276, and \$105,809 respectively, equal to the required contributions for the year. 75.59% has been contributed for 2002 and 100 percent for 2002 and 2001. \$28,314 representing the unpaid contribution for 2002, is recorded as an expenditure to the individual funds that incurred the costs.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 11 -- POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio provides post retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio Service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate was 13.55% of covered payroll; 5% was the portion that was used to fund health care for the year 2002.

Benefits are advance funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually, and an additional increase in total payroll of .50 percent to 6.3 percent based on additional pay increases. Health care premiums were assumed to increase 4.0 percent annually.

OPB are financed through employer contributions and investment earnings. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investments.

The Ohio Revised Code provides the statutory authority requiring public employees to fund post retirement health care through their contributions to OPERS. The City's contribution to fund postemployment benefits was \$79,320.

As of December 31, 2001 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$11.6 billion. The number of benefit recipients eligible for OPEB at December 31, 2002 was 402,041.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Ohio Police and Firemen's Pension Fund

The Fund provides post retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the Ohio Police and Firemen's Pension Fund shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firemen's employer contribution rate is 24% of covered payroll.

The Ohio Revised Code provides the statutory authority allowing the Fund's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. The Board defined allocation was 7.5% and 7.75% of covered payroll in 2001 and 2002. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2001, the date of the last actuarial valuation are 13,174 for police and 10,239 for firefighters.

The amount that the City contributed as the employer's share to pay postemployment benefits for 2002 was \$33,764 for police and \$8,820 for firefighters.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

The Fund's total health care expenses for the year ending December 31, 2001, the date of the last actuarial valuation was \$122,298,771 which was net of member contributions of \$6,874,699.

NOTE 12 - COMPENSATED ABSENCES

The City accrues unpaid vacation and compensation time as it is earned and certain portions of sick leave pay as payment becomes probable.

Sick leave accumulates at the rate of .0575 hours of sick leave for each hour of work completed with a maximum of 80 hours per pay period. Sick leave is accumulated and may be converted into cash upon retirement with more than ten years of service at the rate of thirty percent for all employees of the police and fire department to a maximum of 600 hours and a maximum of 480 hours for all other personnel. Individuals leaving the employment of the City prior to retirement or at retirement with less than ten years of service lose their accumulated sick leave. At December 31, 2002, the maximum vested liability to the City for accumulated unpaid sick leave, assuming the City would have to pay all accumulated sick leave if the City ceased operations approximated \$74,009. A liability has been recognized in the accompanying financial statements for sick leave for only the employees who have ten years of service and are age 50 or older, or have thirty years with local government employment. A liability for accrued vacation and holidays of \$173,801 and accrued compensation time of \$3,180 have been recognized.

Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>Vacation Credit</u>
After 1 year	2 weeks
After 8 years	3 weeks
After 15 years	4 weeks
After 22 years	5 weeks

Vacation leave must be used within the current calendar year unless the employee is unable to use his vacation due to the operational needs of the Employer. Without this, such excess leave is eliminated from the employee's leave balance. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation.

NOTE 13 -- BUDGET BASIS OF ACCOUNTING

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual (Budget Basis), All Governmental Fund Types and the Combined Statement of Revenues, Expenses, and Changes in Fund Balances, Budget and Actual (Budget Basis), All Proprietary Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP).

Adjustments necessary to convert the results of operations at the end of the year on the Budget basis to the GAAP basis are as follows:

	<u>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses/Net Income(Loss)</u>				
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>
Budget Basis	\$ (194,440)	\$ (34,677)	\$ (3,823,082)	\$ 120,806	\$ -
Adjustments:					
Revenue Accruals	26,220	(5,844)	38,369	36,613	390,906
Expenditure Accruals	(88,453)	(8,444)	4,129,457	(237,912)	(390,906)
Encumbrances	<u>41,253</u>	<u>20,640</u>	<u>(8,259)</u>	<u>86,557</u>	<u>-</u>
GAAP Basis	<u>\$ (215,420)</u>	<u>\$ (28,325)</u>	<u>\$ 336,485</u>	<u>\$ 6,064</u>	<u>\$ -</u>

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 14 -- RISK MANAGEMENT

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

Commercial Insurance

The City has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles

There has not been a significant reduction in commercial coverage from the prior year and settled claims have not exceeded coverage in any of the last five years.

Workers Compensation

Workers compensation coverage is provided by the State. The City pays State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Risk Pool Membership

The City is a member of the Buckeye Ohio Risk Management Association self insurance pool (the Pool). The Pool assumes the risk of loss up to the limits of the City's policy. The Pool may make supplemental assessments if the experience of the overall pool is unfavorable. The pool covers the following risks:

- Comprehensive Medical Plan
- Prescription Drug Plan

The December premiums were paid to the administrator, CoreSource located in Westerville, Ohio, at \$315 for single coverage, \$504 for two party coverage and \$757 for family coverage.

The contracted employees portion of the City's premium amounts are capped by negotiated union contracts and cannot be increased except by negotiations. The contracted and non-contracted employee monthly portion of the premium is \$25 for single coverage, \$40 per two party coverage and \$60 for family coverage which is withheld from their biweekly payroll.

In addition, the City provides \$550 per year, per employee to be used by the employee for the reimbursement of dental and optical expenses upon presentation of a paid receipt for such services.

Life insurance is provided in full to full time employees in the amount of \$20,000 per employee.

The claims liability of \$110,500 reported in the internal service fund at December 31, 2002 is based on the requirements of GASB Statement 10 which requires that a liability for unpaid claims costs, including estimates for costs relating to incurred but not reported claims, be reported. Changes in the fund's claims liability amount for the last two years is as follows:

<u>Year</u>	<u>Beginning of Year</u>	<u>Claims</u>	<u>Payments</u>	<u>End of Year</u>
2002	\$ 47,690	\$ 465,389	\$ 402,579	\$ 110,500
2001	\$ 29,753	\$ 372,397	\$ 354,460	\$ 47,690

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 15 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The City operates Enterprise Funds which provide water, disposal and treatment of sewage, and waste disposal. The key financial information for the year ended December 31, 2002 for these enterprise activities is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Operating Revenue	\$ 1,041,045	\$ 671,293	\$ 571,636	\$ 2,283,974
Operating Expenses	828,124	522,064	559,391	1,909,579
Depreciation	130,448	165,652	70,607	366,707
Operating Income	82,473	(16,423)	(58,362)	7,688
Investment Income	1,642	4,573	3,119	9,334
Refund of Prior Year Receipts	(5,479)	(5,479)	-	(10,958)
Net Income (Loss)	78,636	(17,329)	(55,243)	6,064
Fixed Assets	6,949,554	8,519,213	290,992	15,759,759
Asset Additions	4,069,640	64,948	74,967	4,209,555
Total Assets	7,311,867	8,900,349	498,170	16,710,386
Net Cash Flow	109,121	88,386	(76,701)	120,806
Net Working Capital	264,586	330,045	147,992	742,623
Contributed Capital	4,972,399	6,018,120	7,490	10,998,009
Total Equity	\$ 7,214,140	\$ 8,849,258	\$ 438,984	\$ 16,502,382

NOTE 16 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the law director the resolution of these matters will not have a material adverse effect on the financial condition of the government.

CITY OF UPPER SANDUSKY, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
For the Year Ended December 31, 2002

NOTE 17 - ACCOUNTABILITY & COMPLIANCE

The following funds had total appropriations in excess of estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code:

General Fund
Special Revenue Fund:
 Park
Enterprise Fund:
 Water

The following funds had total estimated receipts in excess of actual receipts contrary to Section 5705.36, Ohio Revised Code:

General Fund
Enterprise Fund:
 Water

The following account had total expenditures plus encumbrances in excess of appropriations at the legal level of control contrary to Section 5705.41 (B), Ohio Revised Code:

Capital Projects Fund:
 Capital Outlay

In addition, Auditor of State Bulletin 97-010 also requires budgetary compliance to be tested at points during the fiscal year as well as year-end. The following account was found to have expenditures plus encumbrances exceed appropriations at September 30, 2002:

General Fund:
 General Government
 Auditor
 Contract Services

**City of Upper Sandusky, Ohio
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2002**

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. Department of Transportation</u>			
Pass through Ohio Department of Transportation			
Bike Way	20.105	\$ <u>260,920</u>	\$ <u>260,920</u>
Total U.S. Department of Transportation		\$ 260,920	\$ 260,920
<u>U.S. Department of Justice</u>			
Pass through Ohio Department of Criminal Justice Services			
COPS Fast Grant	16.170	\$ <u>21,585</u>	\$ <u>21,585</u>
Total U.S. Department of Justice		\$ 21,585	\$ 21,585
<u>U.S. Department of Housing and Urban Development</u>			
Pass through the Ohio Department of Development			
CDBG Downtown Grant	14.228	<u>343,240</u>	<u>311,400</u>
Total U.S. Department of Housing and Urban Development		\$ <u>343,240</u>	\$ <u>311,400</u>
TOTAL FEDERAL AWARDS EXPENDITURES		\$ <u><u>625,745</u></u>	\$ <u><u>593,905</u></u>

See Notes to the Schedule of Awards Expenditures

CITY OF UPPER SANDUSKY, OHIO
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2002

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

2. 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 expenditure of non-federal matching funds is not included on the schedule.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**The Honorable Mayor and Members of City Council
City of Upper Sandusky
Upper Sandusky, Ohio**

We have audited the general purpose financial statements of the City of Upper Sandusky, Ohio as of and for the year ended December 31, 2002, and have issued our report thereon dated June 12, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-Upp-001 through 2002-Upp-003. We also noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated June 12, 2003.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated June 12, 2003.

This report is intended for the information and use of management, the honorable Mayor and members of city council, and 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.

Charles E. Harris & Associates, Inc.
June 12, 2003

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Members of City Council
City of Upper Sandusky
Upper Sandusky, Ohio

Compliance

We have audited the compliance of the City of Upper Sandusky, Ohio with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. 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 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 program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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 are applicable to its major federal program for the year ended December 31, 2002.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 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*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the honorable Mayor and members of city council, and 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.

Charles E. Harris & Associates, Inc.
June 12, 2003

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**CITY OF UPPER SANDUSKY, OHIO
WYANDOT COUNTY
DECEMBER 31, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	CDBG Downtown Grant CFDA # 14.228
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

CITY OF UPPER SANDUSKY, OHIO
WYANDOT COUNTY
DECEMBER 31, 2002

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

Finding Number **2002-Upp-001**

The following account had total expenditures plus encumbrances in excess of appropriations at the legal level of control contrary to Section 5705.41 (B), Ohio Revised Code:

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Amount</u>
Capital Projects Fund			
Capital Outlay	\$ 7,151,678	\$ 9,146,035	(1,994,357)

In addition, Auditor of State Bulletin 97-010 also requires budgetary compliance to be tested at points during the fiscal year as well as year-end. The following account was found to have expenditures plus encumbrances exceed appropriations at September 30, 2002:

	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Amount</u>
General Fund			
General Government			
Auditor			
Contract Services	\$ 5,000	\$ 10,647	(5,647)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

CITY OF UPPER SANDUSKY, OHIO
WYANDOT COUNTY
DECEMBER 31, 2002

Finding Number	2002-Upp-002
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The following funds had total appropriations in excess of estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code:

	<u>Revenues plus Carryover Balances</u>	<u>Appropriations</u>	<u>Amount</u>
General Fund	\$ 3,034,053	\$ 3,160,132	\$ (126,079)
Special Revenue Fund			
Park	394,864	423,100	(28,236)
Enterprise Fund			
Water	1,038,123	1,043,200	(5,077)

Finding Number	2002-Upp-003
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The following funds had total estimated receipts in excess of actual receipts contrary to Section 5705.36, Ohio Revised Code:

	<u>Estimated Receipts</u>	<u>Actual Receipts</u>	<u>Amount</u>
General Fund	\$ 2,722,155	\$ 2,480,189	\$ (241,966)
Enterprise Fund			
Water	405,500	383,667	(21,833)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None.

CITY OF UPPER SANDUSKY, OHIO

Wyandot County

December 31, 2002

Schedule of Prior Audit Findings

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid. Explain.
2001-Upp-01	Appropriations in excess of estimated resources plus carryover balances	No	Not corrected.
2001-Upp-02	Total estimated receipts in excess of actual receipts	No	Not corrected.
2001-Upp-03	Total expenditures plus encumbrances in excess of appropriations at legal level of control	No	Not corrected.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

CITY OF UPPER SANDUSKY

WYANDOT 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
SEPTEMBER 2, 2003**