

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

**AUDIT REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

***Charles E. Harris and Associates, Inc.***  
**Certified Public Accountants and Government Consultants**





Mary Taylor, CPA  
Auditor of State

Members of Council  
City of Upper Sandusky  
119 North 7th Street  
Upper Sandusky, Ohio 43351

We have reviewed the *Report of Independent Accountants* of the City of Upper Sandusky, Wyandot County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2007 through December 31, 2007. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

September 10, 2009

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**CITY OF UPPER SANDUSKY**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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***Charles E. Harris & Associates, Inc.***  
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## **REPORT OF INDEPENDENT ACCOUNTANTS**

City of Upper Sandusky  
119 North 7<sup>th</sup> Street  
Upper Sandusky, Ohio 43351

To City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Upper Sandusky, Wyandot County, Ohio (the "City"), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Upper Sandusky, Wyandot County, Ohio, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

***Charles E. Harris & Associates, Inc.***

July 28, 2009

City of Upper Sandusky  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

The discussion and analysis of City of Upper Sandusky's financial performance provides an overall view of the City's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### **Financial Highlights**

Key financial highlights for 2007 are as follows:

- The City was able to increase net assets during 2007, changing \$480,464.
- Total Assets were \$29,373,406.
- Total Liabilities were \$8,146,562.

### **Using this Annual Financial Report**

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column. In case of City of Upper Sandusky, the general fund is by far the most significant fund.

### ***Reporting the City as a Whole***

#### *Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

- **Governmental Activities** - Most of the City's programs and services are reported here including public safety, public works, health, human services, conservation and recreation, economic development, urban redevelopment, legislative and executive, and judicial.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The water, sewer and sanitation funds are reported as business activities.

City of Upper Sandusky  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2007  
Unaudited

**Reporting the City's Most Significant Funds**

*Fund Financial Statements*

Fund financial statements provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund and the capital improvement capital projects fund.

**Governmental Funds** Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

**Proprietary Funds** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

**The City as a Whole**

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2007 and 2006:

Table 1  
Net Assets

	Governmental Activities 2007	Governmental Activities 2006	Business-Type Activities 2007	Business-Type Activities 2006	2007 Total	2006 Total
<b>Assets</b>						
Current and Other Assets	\$ 3,030,769	\$ 2,945,340	\$ 612,780	\$ 678,248	\$ 3,643,549	\$ 3,623,588
Capital Assets	7,163,776	7,058,277	18,566,081	18,642,187	25,729,857	25,700,464
Total Assets	10,194,545	10,003,617	19,178,861	19,320,435	29,373,406	29,324,052
<b>Liabilities</b>						
Current and Other Liabilities	399,395	360,327	127,532	108,761	526,927	469,088
Long-Term Liabilities	7,559,896	8,025,960	59,739	82,624	7,619,635	8,108,584
Total Liabilities	7,959,291	8,386,287	187,271	191,385	8,146,562	8,577,672
<b>Net Assets</b>						
Invested in Capital Assets, Net	7,151,254	7,027,500	18,566,081	18,612,331	25,717,335	25,639,831
Restricted	109,951	608,630	-	-	109,951	608,630
Unrestricted (Deficit)	(5,025,951)	(6,018,800)	425,509	516,719	(4,600,442)	(5,502,081)
Total Net Assets	<u>\$ 2,235,254</u>	<u>\$ 1,617,330</u>	<u>\$ 18,991,590</u>	<u>\$ 19,129,050</u>	<u>\$ 21,226,844</u>	<u>\$ 20,746,380</u>

From last year, assets increased by \$49,354. Entitlements from Other Governments were the main reason for the increase in assets that increased \$84,767 from the prior year.

The net assets of the City's governmental activities increased by \$617,924. Again this was primarily due to the change in capital assets. The net assets of the City's business-type activities decreased by \$137,460.

City of Upper Sandusky  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2007  
Unaudited

Table 2 shows the changes in net assets for the year 2007 as compared to 2006.

Table 2  
Changes in Net Assets

	Governmental Activities 2007	Governmental Activities 2006	Business-Type Activities 2007	Business-Type Activities 2006	2007 Total	2006 Total
<b>Revenue</b>						
Program Revenues:						
Charges for Services	\$ 57,801	\$ 80,056	\$ 2,733,486	\$ 2,664,506	\$ 2,791,287	\$ 2,744,562
Operating Grants	247,177	4,236	-	-	247,177	4,236
General Revenue:						
Property and Income Taxes	2,709,260	3,019,646	-	-	2,709,260	3,019,646
Fines and Forfeitures	661,653	665,452	-	-	661,653	665,452
Grants and Entitlements	684,585	758,337	-	-	684,585	758,337
Licenses and Permits	101,751	37,837	-	-	101,751	37,837
Investment Earnings	94,002	82,374	9,934	16,165	103,936	98,539
Other	210,895	218,232	59,550	27,285	270,445	245,517
Transfers	333,161	220,540	(333,161)	(220,540)	-	-
<b>Total Revenues</b>	<b>5,100,285</b>	<b>5,086,710</b>	<b>2,469,809</b>	<b>2,487,416</b>	<b>7,570,094</b>	<b>7,574,126</b>
<b>Program Expenses</b>						
General Government – Legislative and Executive	723,456	695,128	-	-	723,456	695,128
General Government – Judicial	594,388	617,077	-	-	594,388	617,077
Security of Persons and Property	1,561,428	1,547,062	-	-	1,561,428	1,547,062
Public Health	44,579	45,320	-	-	44,579	45,320
Transportation	445,034	369,207	-	-	445,034	369,207
Community Environment	328,663	188,583	-	-	328,663	188,583
Basic Utility Services	76,695	93,076	-	-	76,695	93,076
Leisure Time Activities	404,324	448,967	-	-	404,324	448,967
Interest and Fiscal Charges	301,283	302,850	-	-	301,283	302,850
Unallocated Depreciation	2,511	2,873	-	-	2,511	2,873
Water	-	-	1,200,960	1,103,558	1,200,960	1,103,558
Sewer	-	-	673,665	759,481	673,665	759,481
Sanitation	-	-	732,644	654,449	732,644	654,449
<b>Total Expenses</b>	<b>4,482,361</b>	<b>4,310,143</b>	<b>2,607,269</b>	<b>2,517,488</b>	<b>7,089,630</b>	<b>6,827,631</b>
<b>Change in Net Assets</b>	<b>\$ 617,924</b>	<b>\$ 776,567</b>	<b>\$ (137,460)</b>	<b>\$ (30,072)</b>	<b>\$ 480,464</b>	<b>\$ 746,495</b>

**Governmental Activities**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is still comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

A city that is dependent upon municipal income taxes and property taxes that is hampered by a lack of revenue growth must regularly return to the voters to maintain a constant level of service. Municipal income taxes and property taxes made up 53.1 percent of revenues for governmental activities in calendar year 2007.

General Government Legislative and Executive comprise 16.1 percent of governmental program expenses. Interest expense was 6.7 percent. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

City of Upper Sandusky  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2007  
Unaudited

Table 3  
Governmental Activities

	Total Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2007	Net Cost of Services 2006
Governmental Activities:				
General Government - Legislative and Executive	\$ 723,456	\$ 695,128	\$ 723,456	\$ 695,128
General Government - Judicial	594,388	617,077	594,388	617,077
Security of Persons and Property	1,561,428	1,547,062	1,539,258	1,528,006
Public Health and Welfare	44,579	45,320	44,579	45,320
Transportation	445,034	369,207	208,803	369,207
Community Environment	328,663	188,583	317,717	188,583
Basic Utility Services	76,695	93,076	76,695	93,076
Leisure Time Activities	404,324	448,967	368,693	383,731
Interest and Fiscal Charges	301,283	302,850	301,283	302,850
Unallocated Depreciation	2,511	2,873	2,511	2,873
Total Expenses	<u>\$ 4,482,361</u>	<u>\$ 4,310,143</u>	<u>\$ 4,177,383</u>	<u>\$ 4,225,851</u>

The dependence upon tax revenues for governmental activities is apparent. Taxes and other general revenues support over 98.7 percent of Security of Persons and Property expenses. For all governmental activities revenue support is 86.2 percent. The community, as a whole, is by far the primary support for the City.

***Business-Type Activities***

Business-type activities include the water, sewer, and sanitation fund. These programs had revenues of \$2,802,970 and expenses of \$2,940,430 for the year 2007 or decrease of \$137,460 in net assets. To also insure that net assets are not further reduced in 2007, the City is taking steps to reduce expenses, including renegotiating vendor agreements. Business activities receive no support from tax revenues.

**The City's Funds**

Information about the City's major funds starts on page 9. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,214,166 and expenditures of \$5,060,377. As a whole, the City is not currently meeting its financial obligations and is relying on prior year cash. The net change in fund balance for the year was \$(513,050) mainly due to not receiving anticipated income taxes.

***General Fund Budgeting Highlights***

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of the year 2007 the City amended its general fund budget very little, and none were significant. The City uses department based budgeting and the budgeting systems are designed to tightly control total department budgets but provide flexibility for site management.

For the general fund, budgeted revenue was \$4,330,500, which not was revised during 2007. The original appropriations of \$4,310,580 were increased to \$4,340,390, with final expenditures of \$4,168,498.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of the 2007 the City had \$25,729,857 invested in land, buildings, equipment and vehicles in governmental and business-type activities. Table 4 shows the 2007 balances compared to 2006 balances.

City of Upper Sandusky  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

Table 4  
 Capital Assets at June 30  
 (Net of Depreciation)

	Governmental Activities 2007	Governmental Activities 2006	Business-Type Activities 2007	Business-Type Activities 2006	2007 Totals	2006 Totals
Land	\$ 884,909	\$ 884,909	\$ 883,242	\$ 883,242	\$ 1,768,151	\$ 1,768,151
Buildings and Improvements	4,538,315	4,538,315	5,490,107	5,490,107	10,028,422	10,028,422
Furniture and Equipment	1,805,628	1,683,246	1,554,612	1,508,798	3,360,240	3,192,044
Vehicles	1,506,498	1,480,246	933,187	635,954	2,439,685	2,116,200
Infrastructure	1,980,169	1,584,525	15,403,804	15,371,654	17,383,973	16,956,179
Total	10,715,519	10,171,241	24,264,952	23,889,755	34,980,471	34,060,996
Less: Accumulated Depreciation	(3,551,743)	(3,112,964)	(5,698,871)	(5,247,568)	(9,250,614)	(8,360,532)
Totals	<u>\$ 7,163,776</u>	<u>\$ 7,058,277</u>	<u>\$ 18,566,081</u>	<u>\$ 18,642,187</u>	<u>\$ 25,729,857</u>	<u>\$ 25,700,464</u>

All capital assets were maintained throughout the year, with only a few notable additions in the infrastructure of the water and sewer funds.

**Debt**

At December 31, 2007 the City had \$7,422,076 in loans and leases outstanding, \$461,903 due within one year.

Table 5 summarizes bond and notes outstanding for December 31, 2007 compared to 2006.

Table 5  
 Outstanding Debt, at Year End

	Governmental Activities 2007	Governmental Activities 2006	Business-Type Activities 2007	Business-Type Activities 2006
OWDA Loans Payable	\$ 6,428,602	\$ 6,795,286	\$ -	\$ -
OPWC Loans Payable	493,952	537,414	-	-
Capital Improvement Bonds	487,000	487,000	-	-
Capital Leases Payable	12,522	30,777	-	29,856
Total Outstanding Debt	<u>\$ 7,422,076</u>	<u>\$ 7,850,477</u>	<u>\$ -</u>	<u>\$ 29,856</u>

**For the Future**

The City is presently financially stable. As the preceding information shows, the City heavily depends on its municipal income tax. It will need to operate below the pre-2007 level but can provide basic services to its citizens.

In conclusion, the City has committed itself to financial excellence for many years. In addition, the City's system of budgeting and internal controls is well regarded. All of the City's financial abilities will be needed to meet the challenges of the future.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information contact Jean Hollanshead, City Auditor, 419-294-3988, 119 N. 7<sup>th</sup> St., Upper Sandusky, Ohio 43351. Or e-mail at [cauditor@udata.com](mailto:cauditor@udata.com).

City of Upper Sandusky

Statement of Net Assets  
December 31, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,441,098	\$ 259,974	\$ 1,701,072
Receivables:			
Taxes	958,883	-	958,883
Accounts	75,185	325,231	400,416
Accrued Interest	4,090	-	4,090
Internal Balances	23,124	(23,124)	-
Due from Other Governments	418,438	-	418,438
Material and Supplies Inventory	46,762	50,699	97,461
Notes Receivable	63,189	-	63,189
Land	884,909	883,242	1,768,151
Capital Assets, Net of Depreciation	6,278,867	17,682,839	23,961,706
Total Assets	<u>\$ 10,194,545</u>	<u>\$ 19,178,861</u>	<u>\$ 29,373,406</u>
<u>Liabilities</u>			
Accounts Payable	\$ 124,406	\$ 68,028	\$ 192,434
Accrued Wages	99,613	24,921	124,534
Due to Other Governments	85,922	34,583	120,505
Claim and Judgements Payable	58,634	-	58,634
Accrued Interest Payable	30,820	-	30,820
Long-Term Liabilities			
Due Within One Year	551,797	41,284	593,081
Due More Than One Year	7,008,099	18,455	7,026,554
Total Liabilities	<u>7,959,291</u>	<u>187,271</u>	<u>8,146,562</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	7,151,254	18,566,081	25,717,335
Restricted for:			
Other Purposes	109,951	-	109,951
Unrestricted (deficit)	(5,025,951)	425,509	(4,600,442)
Total Net Assets	<u>\$ 2,235,254</u>	<u>\$ 18,991,590</u>	<u>\$ 21,226,844</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Activities

For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>						
Governmental Activities:						
General Government:						
Legislative and Executive	\$ 723,456	\$ -	\$ -	\$ (723,456)	\$ -	\$ (723,456)
Judicial	594,388	-	-	(594,388)	-	(594,388)
Security of Persons and Property	1,561,428	22,170	-	(1,539,258)	-	(1,539,258)
Public Health and Welfare	44,579	-	-	(44,579)	-	(44,579)
Transportation	445,034	-	236,231	(208,803)	-	(208,803)
Community Environment	328,663	-	10,946	(317,717)	-	(317,717)
Basic Utility Services	76,695	-	-	(76,695)	-	(76,695)
Leisure Time Activities	404,324	35,631	-	(368,693)	-	(368,693)
Interest Expense	301,283	-	-	(301,283)	-	(301,283)
Unallocated Depreciation	2,511	-	-	(2,511)	-	(2,511)
Total Governmental Activities	<u>4,482,361</u>	<u>57,801</u>	<u>247,177</u>	<u>(4,177,383)</u>	<u>-</u>	<u>(4,177,383)</u>
Business-Type activities:						
Water Fund	1,200,960	1,393,651	-	-	192,691	192,691
Sewer Fund	673,665	703,881	-	-	30,216	30,216
Sanitation Fund	732,644	635,954	-	-	(96,690)	(96,690)
Total Business-Type activities	<u>2,607,269</u>	<u>2,733,486</u>	<u>-</u>	<u>-</u>	<u>126,217</u>	<u>126,217</u>
Total primary government	<u>\$7,089,630</u>	<u>\$2,791,287</u>	<u>\$ 247,177</u>	<u>(4,177,383)</u>	<u>126,217</u>	<u>(4,051,166)</u>
General revenues:						
Taxes:						
Municipal Income Tax				2,297,324	-	2,297,324
Property Taxes, Levied for General Purposes				411,936	-	411,936
Fines and Forfeitures				661,653	-	661,653
Licenses & Permits				101,751	-	101,751
Grants and Contributions Not Restricted to Specific Programs				684,585	-	684,585
Unrestricted Investment Earnings				94,002	9,934	103,936
Miscellaneous				210,895	59,550	270,445
Transfers				333,161	(333,161)	-
Total General Revenues				<u>4,795,307</u>	<u>(263,677)</u>	<u>4,531,630</u>
Change in Net Assets				617,924	(137,460)	480,464
Net Assets - January 1, 2007				<u>1,617,330</u>	<u>19,129,050</u>	<u>20,746,380</u>
Net Assets - December 31, 2007				<u>\$ 2,235,254</u>	<u>\$ 18,991,590</u>	<u>\$ 21,226,844</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Balance Sheet  
 Governmental Funds  
 December 31, 2007

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets and Other Debits</u>				
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 638,474	\$ 280,214	\$ 522,410	\$ 1,441,098
Receivables:				
Taxes	958,883	-	-	958,883
Accounts	62,614	-	12,571	75,185
Accrued Interest	2,045	2,045	-	4,090
Due from Other Governments	239,711	-	178,727	418,438
Materials and Supplies Inventory	4,853	-	41,909	46,762
Notes Receivable	-	-	63,189	63,189
	<u>-</u>	<u>-</u>	<u>63,189</u>	<u>63,189</u>
 Total Assets	 <u>\$ 1,906,580</u>	 <u>\$ 282,259</u>	 <u>\$ 818,806</u>	 <u>\$ 3,007,645</u>
 <u>Liabilities</u>				
Accounts Payable	93,337	\$ 803	\$ 30,266	\$ 124,406
Accrued Wages and Benefits	92,041	-	7,572	99,613
Due to Other Funds	29,409	-	6,101	35,510
Due to Other Governments	71,394	941	13,587	85,922
Deferred Revenue	1,068,177	1,014	119,720	1,188,911
	<u>1,068,177</u>	<u>1,014</u>	<u>119,720</u>	<u>1,188,911</u>
 Total Liabilities	 <u>1,354,358</u>	 <u>2,758</u>	 <u>177,246</u>	 <u>1,534,362</u>
 <u>Fund Balances</u>				
Reserved for Inventory	4,853	-	41,909	46,762
Reserved for Notes Receivable	-	-	63,189	63,189
Unreserved , Undesignated, Reported in:				
General Fund	547,369	-	-	547,369
Special Revenue Funds	-	-	536,462	536,462
Capital Projects Funds	-	279,501	-	279,501
	<u>547,369</u>	<u>279,501</u>	<u>536,462</u>	<u>279,501</u>
 Total Fund Balances	 <u>552,222</u>	 <u>279,501</u>	 <u>641,560</u>	 <u>1,473,283</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,906,580</u>	 <u>\$ 282,259</u>	 <u>\$ 818,806</u>	 <u>\$ 3,007,645</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
December 31, 2007

Total Governmental Fund Balances \$ 1,473,283

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

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. 7,163,776

The internal service fund used by management to charge  
the cost of insurance to individual funds is not reported in  
the government-wide statement of activities. Governmental fund  
expenditures and the related internal service fund revenues  
are eliminated. Assets and liabilities of the internal service fund  
are added to the Government-wide statements.

Due from Other Funds	\$ 58,634	
Claims and Judgments Payable	<u>(58,634)</u>	-

Other long-term assets are not available to pay for current-  
period expenditures and therefore are deferred in the funds.

Municipal Income Taxes	\$ 661,421	
Delinquent Property Taxes	282,290	
Investment Income	2,028	
Grants	<u>243,172</u>	1,188,911

Some liabilities, including bonds payable and accrued interest,  
are not due and payable in the current period and therefore  
are not reported in the funds.

Accrued Interest Payable	\$ (30,820)	
Compensated Absences Payable	(137,821)	
Loans Payable	(6,922,553)	
Bonds Payable	(487,000)	
Capital Leases Payable	<u>(12,522)</u>	<u>(7,590,716)</u>

Net Assets of Governmental Activities		<u><u>\$ 2,235,254</u></u>
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City of Upper Sandusky

Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2007

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Municipal Income Tax	\$ 1,763,406	\$ -	\$ -	\$ 1,763,406
Property and Other Taxes	405,594	-	21,086	426,680
Intergovernmental	532,165	-	367,841	900,006
Investment Income	50,481	23,221	18,272	91,974
Licenses and Permits	101,751	-	-	101,751
Fines and Forfeitures	510,223	-	151,430	661,653
Charges for Services	22,170	-	35,631	57,801
Other	170,635	3,335	36,925	210,895
<b>Total Revenue</b>	<b>3,556,425</b>	<b>26,556</b>	<b>631,185</b>	<b>4,214,166</b>
Expenditures:				
Current:				
General Government:				
Legislative and Executive	721,142	-	-	721,142
Judicial	491,883	-	130,553	622,436
Security of Persons and Property	1,656,680	6,884	-	1,663,564
Public Health and Welfare	44,579	-	-	44,579
Transportation	-	121,596	391,372	512,968
Community Environment	59,421	125,255	18,420	203,096
Basic Utilities	-	2,748	-	2,748
Leisure Time Activities	-	186,387	372,612	558,999
Debt Service:				
Principal Retirement	18,255	410,146	-	428,401
Interest and Fiscal Charges	2,060	300,384	-	302,444
<b>Total Expenditures</b>	<b>2,994,020</b>	<b>1,153,400</b>	<b>912,957</b>	<b>5,060,377</b>
Excess of Revenues Over (Under) Expenditures	562,405	(1,126,844)	(281,772)	(846,211)
Other Financing Sources (Uses):				
Transfers - In	-	1,183,707	335,755	1,519,462
Transfers - Out	(1,186,301)	-	-	(1,186,301)
<b>Total Other Sources (Uses)</b>	<b>(1,186,301)</b>	<b>1,183,707</b>	<b>335,755</b>	<b>333,161</b>
Net Change in Fund Balance	(623,896)	56,863	53,983	(513,050)
Fund Balances (Deficit) at Beginning of Year	1,175,265	222,638	583,138	1,981,041
Increase (Decrease) in Reserve for Inventory	853	-	4,439	5,292
<b>Fund Balances (Deficits) End of Year</b>	<b>\$ 552,222</b>	<b>\$ 279,501</b>	<b>\$ 641,560</b>	<b>\$ 1,473,283</b>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2007

Net Change in Fund Balances-Total Governmental Funds \$ (513,050)

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

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

Capital Asset Additions	\$ 544,278	
Depreciation	<u>(438,779)</u>	105,499

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

Municipal Income Taxes	\$ 533,918	
Delinquent Property Taxes	(14,744)	
Investment Income	2,028	
Intergovernmental Grants	<u>31,756</u>	552,958

The repayment of debt principal reduces long-term  
liabilities in the statement of net assets.

Principal Payments		428,401
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In the statement of activities, interest is accrued on  
outstanding loans, whereas in governmental funds, an  
interest expenditure is reported when due.

		1,161
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Some expenses reported in the statement of activities,  
such as compensated absences do not require the use of  
current financial resources and therefore are not reported  
as expenditures governmental funds.

Decrease in Compensated Absences	\$ 37,663	
Change in Inventory	<u>5,292</u>	<u>42,955</u>

Change in Net Assets of Governmental Activities		<u>\$ 617,924</u>
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City of Upper Sandusky  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund

For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
<b>Revenues:</b>				
Municipal Income Tax	\$ 2,600,000	\$ 2,600,000	\$ 2,278,367	\$ (321,633)
Property and Other Taxes	391,000	391,000	401,404	10,404
Charges for Services	19,500	19,500	22,234	2,734
Licenses and Permits	49,000	49,000	101,889	52,889
Fines and Forfeitures	540,500	540,500	514,447	(26,053)
Intergovernmental	528,500	528,500	470,736	(57,764)
Investment Income	20,000	20,000	50,739	30,739
Other	182,000	182,000	170,795	(11,205)
<b>Total Revenue</b>	<b>4,330,500</b>	<b>4,330,500</b>	<b>4,010,611</b>	<b>(319,889)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General Government:</b>				
Legislative and Executive	740,775	756,281	709,943	46,338
Judicial	517,300	548,360	528,075	20,285
Security of Persons and Property	1,647,380	1,610,309	1,622,777	(12,468)
Public Health and Welfare	49,500	49,500	44,579	4,921
Community Environment	59,625	59,625	56,508	3,117
<b>Debt Service:</b>				
Principal Retirement	-	18,255	18,255	-
Interest and Fiscal Charges	-	2,060	2,060	-
<b>Total Expenditures</b>	<b>3,014,580</b>	<b>3,044,390</b>	<b>2,982,197</b>	<b>62,193</b>
Excess of Revenues Over (Under) Expenditures	1,315,920	1,286,110	1,028,414	(257,696)
<b>Other Financing Sources (Uses):</b>				
Transfers - Out	(1,296,000)	(1,296,000)	(1,186,301)	109,699
<b>Total Other Sources (Uses)</b>	<b>(1,296,000)</b>	<b>(1,296,000)</b>	<b>(1,186,301)</b>	<b>109,699</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	19,920	(9,890)	(157,887)	(147,997)
Fund Balances (Deficit) at Beginning of Year	696,874	696,874	696,874	-
Prior Year Encumbrances Appropriated	99,487	99,487	99,487	-
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$ 816,281</b>	<b>\$ 786,471</b>	<b>\$ 638,474</b>	<b>\$ (147,997)</b>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Net Assets  
 Proprietary Funds  
 December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Sanitation Fund	Total	
<b>Assets:</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 33,185	\$ 179,082	\$ 47,707	\$ 259,974	\$ -
Receivables:					
Accounts	159,894	91,737	73,600	325,231	-
Due from Other Funds	-	-	-	-	58,634
Inventory of Supplies	43,811	6,888	-	50,699	-
Total Current Assets	<u>236,890</u>	<u>277,707</u>	<u>121,307</u>	<u>635,904</u>	<u>58,634</u>
Capital Assets, No Depreciation	612,422	270,820	-	883,242	-
Capital Assets, Net of A/D	8,643,102	8,940,241	99,496	17,682,839	-
Total Assets	<u>\$ 9,492,414</u>	<u>\$ 9,488,768</u>	<u>\$ 220,803</u>	<u>\$ 19,201,985</u>	<u>\$ 58,634</u>
<b>Liabilities:</b>					
Accounts Payable	\$ 29,703	\$ 18,210	\$ 20,115	\$ 68,028	\$ -
Accrued Wages and Benefits	18,360	6,561	-	24,921	-
Compensated Absences Payable	18,785	8,898	13,601	41,284	-
Due to Other Funds	10,414	4,752	7,958	23,124	-
Due to Other Governments	20,055	6,588	7,940	34,583	-
Claims Payable	-	-	-	-	58,634
Total Current Liabilities	<u>97,317</u>	<u>45,009</u>	<u>49,614</u>	<u>191,940</u>	<u>58,634</u>
Compensated Absences Payable	11,101	-	7,354	18,455	-
Total Liabilities	<u>108,418</u>	<u>45,009</u>	<u>56,968</u>	<u>210,395</u>	<u>58,634</u>
<b>Net Assets:</b>					
Investment in Capital Assets, Net of Debt	9,255,524	9,211,061	99,496	18,566,081	-
Unrestricted	128,472	232,698	64,339	425,509	-
Total Net Assets	<u>\$ 9,383,996</u>	<u>\$ 9,443,759</u>	<u>\$ 163,835</u>	<u>\$ 18,991,590</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Funds

For the Year Ended December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Sanitation Fund	Totals	
Operating Revenues:					
Charges for Services	\$ 1,393,651	\$ 703,881	\$ 635,954	\$ 2,733,486	\$ 663,390
Other Operating Revenues	29,203	12,917	17,430	59,550	-
Total Operating Revenues	<u>1,422,854</u>	<u>716,798</u>	<u>653,384</u>	<u>2,793,036</u>	<u>663,390</u>
Operating Expenses:					
Personal Services	630,011	256,608	331,714	1,218,333	-
Contractual Services	125,534	178,622	227,591	531,747	-
Claims and Judgements	-	-	-	-	663,390
Materials and Supplies	244,476	35,113	70,931	350,520	-
Other Operating Expenses	53,772	-	-	53,772	-
Depreciation	147,167	201,728	102,408	451,303	-
Total Operating Expenses	<u>1,200,960</u>	<u>672,071</u>	<u>732,644</u>	<u>2,605,675</u>	<u>663,390</u>
Operating Income (Loss)	<u>221,894</u>	<u>44,727</u>	<u>(79,260)</u>	<u>187,361</u>	<u>-</u>
Non-Operating Revenues (Expenses):					
Interest Income	682	5,530	3,722	9,934	-
Interest and Fiscal Charges	-	(1,594)	-	(1,594)	-
Total Non-Operating Revenues (Expenses)	<u>682</u>	<u>3,936</u>	<u>3,722</u>	<u>8,340</u>	<u>-</u>
Income (Loss) before transfers	222,576	48,663	(75,538)	195,701	-
Transfers - Out	<u>(333,161)</u>	<u>-</u>	<u>-</u>	<u>(333,161)</u>	<u>-</u>
Change in Net Assets	(110,585)	48,663	(75,538)	(137,460)	-
Total Net Assets at Beginning of Year	<u>9,494,581</u>	<u>9,395,096</u>	<u>239,373</u>	<u>19,129,050</u>	<u>-</u>
Total Net Assets at End of Year	<u>\$ 9,383,996</u>	<u>\$ 9,443,759</u>	<u>\$ 163,835</u>	<u>\$ 18,991,590</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended December 31, 2007

	Business-Type Activities - Enterprise Fund				Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Sanitation Fund	Total	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>					
<b>Cash Flows from Operating Activities:</b>					
Cash Received from Customers	\$ 1,406,609	\$ 713,179	\$ 650,319	\$ 2,770,107	\$ 663,390
Cash Paid to Employees	(611,853)	(254,412)	(330,036)	(1,196,301)	-
Cash Paid to Suppliers	(408,592)	(225,209)	(287,212)	(921,013)	(663,390)
Net Cash Provided by (Used in) Operating Activities	<u>386,164</u>	<u>233,558</u>	<u>33,071</u>	<u>652,793</u>	<u>-</u>
<b>Cash flows from Investing Activities:</b>					
Purchase of Capital Assets	(34,048)	(219,300)	(121,849)	(375,197)	-
Interest Income	2,143	7,077	4,410	13,630	-
Net Cash Provided by Investing Activities	<u>(31,905)</u>	<u>(212,223)</u>	<u>(117,439)</u>	<u>(361,567)</u>	<u>-</u>
<b>Cash flows from Capital and Related Financing Activities:</b>					
Principal Payments - Capital Leases	-	(29,856)	-	(29,856)	-
Interest and Fiscal Charges	-	(1,594)	-	(1,594)	-
Transfer - Out	(333,161)	-	-	(333,161)	-
Net Cash Provided by Capital and Related Financing Activities	<u>(333,161)</u>	<u>(31,450)</u>	<u>-</u>	<u>(364,611)</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	21,098	(10,115)	(84,368)	(73,385)	-
Cash and Cash Equivalents, Beginning of Year	12,087	189,197	132,075	333,359	-
Cash and Cash Equivalents, End of Year	<u>\$ 33,185</u>	<u>\$ 179,082</u>	<u>\$ 47,707</u>	<u>\$ 259,974</u>	<u>\$ -</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>					
Operating Income (Loss)	\$ 221,894	\$ 44,727	\$ (79,260)	\$ 187,361	\$ -
Adjustments:					
Net Cash from Operating Activities:					
Depreciation Expense	147,167	201,728	102,408	451,303	-
(Increase) Decrease in Assets:					
Accounts Receivable	(16,245)	(3,619)	(3,065)	(22,929)	-
Inventory	7,363	(1,490)	-	5,873	-
Increase (Decrease) in Liabilities:					
Accounts Payable	7,827	(9,984)	11,310	9,153	-
Accrued Wages and Benefits	3,102	633	(6,742)	(3,007)	-
Compensated Absences Payable	2,972	2,182	1,817	6,971	-
Due to Other Funds	4,374	(3,004)	4,073	5,443	(15,338)
Due to Other Governments	7,710	2,385	2,530	12,625	-
Claims and Judgments Payable	-	-	-	-	15,338
Total Adjustments	<u>164,270</u>	<u>188,831</u>	<u>112,331</u>	<u>465,432</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 386,164</u>	<u>\$ 233,558</u>	<u>\$ 33,071</u>	<u>\$ 652,793</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Fiduciary Net Assets

December 31, 2007

<u>Assets:</u>	<u>Agency</u>
Cash and Cash Equivalents:	
In Segregated Accounts	\$ 66,745
Total Assets	<u>\$ 66,745</u>
<u>Liabilities:</u>	
Undistributed Monies	\$ 28,269
Payroll Withholdings	<u>38,476</u>
Total Liabilities	<u>\$ 66,745</u>

See accompanying notes to the basic financial statements.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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**NOTE 1 -- DESCRIPTION OF THE ENTITY AND REPORTING ENTITY**

The City of Upper Sandusky (the City) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under 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, wastewater 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.

**Reporting Entity:** A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

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; 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. Components units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt or the levying of their taxes. The City has no component units.

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.

The City has not included the City of Upper Sandusky School District as it has no control over its operations and is an autonomous entity.

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

**NOTE 2 -- 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. BASIS OF PRESENTATION**

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

**Government-wide Financial Statements**

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except the fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

Fund Financial Statements

During the year, the City segregates transactions related to certain City programs or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at a more detail level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

**B. FUND ACCOUNTING**

The City uses funds to report on financial position. 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.

Funds are classified into three categories: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General and the Capital Improvement funds are the City's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balances is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Capital Improvement Fund - The Capital Improvement fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds.

The other governmental funds of the City are for grants and other resources, debt service, and capital projects of the City whose uses are restricted to a particular purpose.

Proprietary Funds

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

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

Water Fund - This fund accounts for the financial transactions related to water operations of the City.

Sewer Fund - This fund accounts for the financial transactions related to the sewer treatment service operations of the City.

Sanitation Fund - This fund accounts for the financial transactions related to the refuse pickup operations of the City.

Internal Service Fund - This fund is used to account for health insurance for City employees.

Fiduciary Funds

Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Presently, the City has no trust funds. The City's agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**C. MEASUREMENT FOCUS**

Government-Wide Financial Statements

The Government-Wide Financial Statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement of Net Assets.

Fund Financial Statements

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**D. BASIS OF ACCOUNTING**

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

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in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty days of 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 an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used of the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available as an advance, interest, grants, and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2007, but which were levied to finance 2008 operations, have been recorded as deferred revenue. Special assessments and grants and entitlements received before the eligibility requirements are meant are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**E. BUDGET**

An annual appropriated budget is required by law to be prepared for all funds of the City other than agency funds. Council passes appropriations at the fund, department and object level. Council must approve any revisions in the budget that alter total fund appropriations.

The following are the procedures used by the City in establishing the budgetary data reported in the basic financial statements:

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**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 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 statements reflect the amounts in the first and final amended official certificate of estimated resources issued during 2007.

**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 an ordinance of Council. Several supplemental appropriation ordinances were legally enacted by Council during the year. The budget figures, which appear in the statement of budgetary comparisons, present the original and 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 year and need not be reappropriated.

**F. DEPOSITS**

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund balance 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 combined balance sheet.

During 2007, investments were limited to certificates of deposit, money market accounts, passbook

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accounts and Star Ohio, the State Treasurer's investment pool. 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, are reported at cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during year 2007 amounted to \$50,481.

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAR Ohio) during the year 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2007.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented on the statement of fiduciary net assets as "Cash in Segregated Accounts" since they are not required to be deposited into the City's treasury.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents.

**G. INVENTORIES**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expense when used.

On the fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first in, first out basis. Inventory in governmental funds consist of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

**H. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

**I. CAPITAL ASSETS**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$100 dollars. Public domain ("infrastructure") general capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been capitalized under requirements of the

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Governmental Accounting Standards Board. Improvements are capitalized and the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land Improvements	15 years	15 years
Buildings and Improvements	40 years	40 years
Furniture and Equipment	10 years	10 years
Vehicles	5 years	5 years
Infrastructure	80 years	80 years

**J. INTERFUND BALANCES**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Transactions representing services rendered between funds are classified as "due to/ due from."

**K. COMPENSATED ABSENCES**

Compensated absences of the City consist of vacation leave, holiday, personal, compensatory and sick leave to the extent that payment to the employee for these absences are attributed to services already rendered and are not contingent on a specific event that is outside the control of the City.

The City reports compensated absences in accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to payment are attributable to services already rendered; and it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement.

Sick leave benefits are accrued using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end taking into consideration any limits specified in the City's termination policy. The City records a liability for all accumulated unused vacation time when earned for all employees. The entire compensated absence liability is reported on the government-wide financial statements.

**L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current

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resources. However, claims and judgments, the non-current portion of capital leases, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they will be paid with current, expendable, available resources. In general, payments made within thirty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**M. FUND BALANCE RESERVES**

The City reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, notes receivable, and inventories of supplies and materials.

**N. NET ASSETS**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**O. OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are water, wastewater treatment, and sanitation charges for services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

**P. CONTRIBUTION OF CAPITAL**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grant or outside contributions of resources restricted to capital acquisition and construction. There were no contributions during 2007.

**Q. INTERFUND ACTIVITY**

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expense in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented of the financial statements.

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**R. EXTRAORDINARY AND SPECIAL ITEMS**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2007.

**S. ESTIMATES**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 3 -- BUDGET BASIS OF ACCOUNTING**

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

The Statement of Revenue, Expenditures, and Changes in Fund Balances, Budget and Actual, General Fund and Street Construction Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues 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) 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:

Net Change in Fund Balance	
	General Fund
Budget Basis:	\$ (157,887)
Adjustments:	
Revenue Accruals:	
Accrued 2006, Received in Cash 2007	(576,697)
Accrued 2007, Not yet Received in Cash	122,511
Expenditure Accruals:	
Accrued 2007, Not yet Paid in Cash	201,793
Accrued 2006, Paid in Cash 2007	(213,616)
GAAP Basis	\$ (623,896)

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**NOTE 4 -- DEPOSITS AND INVESTMENTS**

**Deposits**

State statutes classify deposits held by the City into three categories.

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

Inactive deposits are public deposits that 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.

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 bills, bonds, notes or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
5. 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;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25 percent of the interim monies available for investment at any one time for a period not to exceed one hundred eighty days.

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 the delivery of the securities representing the investments to the Treasurer or qualified

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

*Cash On Hand:* At year-end, \$700 was on hand throughout the City in the form of drawer change and petty cash.

*Deposits:* At year-end, the carrying amount of the City's deposits was \$1,767,117 and the bank balance was \$1,878,741. Of the bank balance:

1. \$300,000 was covered by federal depository insurance;
2. \$1,511,416 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions.

Collateral credit risk is the risk that in the event of bank failure, the City will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of all deposits. Such collateral pools at the Federal Reserve Banks or at member banks of the Federal Reserve System, in the name of the respective depository bank and pledged as a pool of collateral against all the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

The City had no investments.

<u>Reconciliation to Balance Sheet</u>	
Checking Accounts	\$ 159,913
Certificates of Deposit	1,150,000
Money Market Account	428,935
Municipal Court Account	28,269
Petty Cash and Drawer Change	700
Total	<u>\$ 1,767,817</u>
<u>Per Balance Sheet</u>	
Equity in Pooled Cash and Investments	\$ 1,701,072
Cash in Segregated Accounts	66,745
Total	<u>\$ 1,767,817</u>

**NOTE 5 -- RECEIVABLES**

Receivables at December 31, 2007, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, accrued interest on investments, accounts (billings for utility service), and notes receivable. No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

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**Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) is for 2007 taxes.

2007 real property taxes are levied after October 1, 2007, on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2007 with real property taxes. Tangible personal property taxes for 2007 are levied after October 1, 2006, on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2007, was \$3.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real Property - 2006 Valuation:	
Residential/Agricultural	\$ 72,577,790
Public Utilities	19,180
Commercial/Industrial	<u>35,009,220</u>
Total Real Property	<u>107,606,190</u>
Tangible Personal Property - 2007 Valuation:	
General	8,600,990
Public Utilities	<u>3,642,080</u>
Total Personal Property	<u>12,243,070</u>
Total Assessed Valuation	<u><u>\$ 119,849,260</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Upper Sandusky. The County Auditors periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2007 operations. The receivable is therefore offset by deferred revenue.

**Income Taxes**

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

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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.

**Intergovernmental Receivables**

A summary of intergovernmental receivables follows:

	Amounts
<b>Governmental Activities</b>	
Local Government and Local Government	
Revenue Assistance	\$ 239,711
Gasoline and Excise Tax	129,762
Motor Vehicle License Fees	48,965
Total	\$ 418,438

**NOTE 6 -- INSURANCE**

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 three 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 \$454 for single coverage, \$727 for two party coverage and \$1,090 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 \$65 and \$45 for single coverage, \$104 and \$73 per two party coverage and \$157 and \$109 for family coverage, which is withheld from their biweekly payroll.

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In addition, the City provides \$600 per year per non-contracted employee and \$550 for contracted employees for single coverage, \$600 for two party coverage and \$675 for family coverage 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 \$58,634 reported in the internal service fund at December 31, 2007 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 are as follows:

Year	Beginning of Year	Claims	Payments	End of Year
2007	\$ 43,296	\$ 663,390	\$ 648,052	\$ 58,634
2006	\$ 37,055	\$ 583,574	\$ 577,333	\$ 43,296

**NOTE 7 -- CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2007:

	Balance 12/31/2006	Additions	Retirements	Balance 12/31/2007
<b>Governmental Activities:</b>				
Land	\$ 884,909	\$ -	\$ -	\$ 884,909
Buildings and Improvements	4,538,315	-	-	4,538,315
Machinery & Equipment	1,683,246	122,382	-	1,805,628
Infrastructure	1,584,525	395,644	-	1,980,169
Vehicles	1,480,246	26,252	-	1,506,498
Total Capital Assets	<u>10,171,241</u>	<u>544,278</u>	<u>-</u>	<u>10,715,519</u>
Less Accumulated Depreciation				
Buildings and Improvements	(841,842)	(111,111)	-	(952,953)
Machinery & Equipment	(542,693)	(152,495)	-	(695,188)
Infrastructure	(682,507)	(38,679)	-	(721,186)
Vehicles	(1,045,922)	(136,494)	-	(1,182,416)
Total Accumulated Depreciation	<u>(3,112,964)</u>	<u>(438,779)</u>	<u>-</u>	<u>(3,551,743)</u>
Governmental Activities - Capital Assets, Net	<u>\$ 7,058,277</u>	<u>\$ 105,499</u>	<u>\$ -</u>	<u>\$ 7,163,776</u>

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance 12/31/2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2007</u>
<b>Business-Type Activities:</b>				
<b><u>Water</u></b>				
Land	\$ 612,422	\$ -	\$ -	\$ 612,422
Buildings and Improvements	1,566,293	-	-	1,566,293
Machinery & Equipment	603,485	1,898	-	605,383
Vehicles	52,004	-	-	52,004
Infrastructure	<u>8,398,098</u>	<u>32,150</u>	<u>-</u>	<u>8,430,248</u>
Total Capital Assets	<u>11,232,302</u>	<u>34,048</u>	<u>-</u>	<u>11,266,350</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(679,584)	(34,960)	-	(714,544)
Machinery & Equipment	(519,797)	(6,615)	-	(526,412)
Vehicles	(52,004)	-	-	(52,004)
Infrastructure	<u>(612,274)</u>	<u>(105,592)</u>	<u>-</u>	<u>(717,866)</u>
Total Accumulated Depreciation	<u>(1,863,659)</u>	<u>(147,167)</u>	<u>-</u>	<u>(2,010,826)</u>
Capital Assets, Net	<u>\$ 9,368,643</u>	<u>\$ (113,119)</u>	<u>\$ -</u>	<u>\$ 9,255,524</u>
<b><u>Wastewater</u></b>				
Land	\$ 270,820	\$ -	\$ -	\$ 270,820
Buildings and Improvements	3,923,814	-	-	3,923,814
Machinery & Equipment	741,639	42,816	-	784,455
Vehicles	101,659	176,484	-	278,143
Infrastructure	<u>6,973,556</u>	<u>-</u>	<u>-</u>	<u>6,973,556</u>
Total Capital Assets	<u>12,011,488</u>	<u>219,300</u>	<u>-</u>	<u>12,230,788</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(949,486)	(52,163)	-	(1,001,649)
Machinery & Equipment	(515,292)	(59,447)	-	(574,739)
Vehicles	(93,659)	(2,000)	-	(95,659)
Infrastructure	<u>(1,259,562)</u>	<u>(88,118)</u>	<u>-</u>	<u>(1,347,680)</u>
Total Accumulated Depreciation	<u>(2,817,999)</u>	<u>(201,728)</u>	<u>-</u>	<u>(3,019,727)</u>
Capital Assets, Net	<u>\$ 9,193,489</u>	<u>\$ 17,572</u>	<u>\$ -</u>	<u>\$ 9,211,061</u>

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance 12/31/2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2006</u>
<b><u>Sanitation</u></b>				
Machinery & Equipment	\$ 163,674	\$ 1,100	\$ -	\$ 164,774
Vehicles	482,291	120,749	-	603,040
Total Capital Assets	<u>645,965</u>	<u>121,849</u>	<u>-</u>	<u>767,814</u>
Less: Accumulated Depreciation				
Machinery & Equipment	(118,977)	(13,607)	-	(132,584)
Vehicles	(446,933)	(88,801)	-	(535,734)
Total Accumulated Depreciation	<u>(565,910)</u>	<u>(102,408)</u>	<u>-</u>	<u>(668,318)</u>
Capital Assets, Net	<u>\$ 80,055</u>	<u>\$ 19,441</u>	<u>\$ -</u>	<u>\$ 99,496</u>

\* - Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$ 9,759
Judicial	10,396
Security of Person and Places	29,034
Transportation	102,051
Leisure Time Activities	85,434
Basic Utility	73,947
Community Environment	125,647
Unallocated Depreciation	<u>2,511</u>
Total Depreciation Expense	<u>\$ 438,779</u>

**NOTE 8 -- 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, 2007, 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 \$66,381. 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 \$131,178 has been recognized.

Vacation is accumulated based upon length of service as follows:

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<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 9 -- LONG TERM LIABILITIES**

	<u>Principal Balance 12/31/2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance 12/31/2007</u>	<u>Amounts Due in One Year</u>
<b><u>Governmental Activities:</u></b>					
OWDA 1996 Sewer Construction; Matures 2014; 2.20%	263,386	-	26,769	236,617	27,362
OWDA Loan; Matures 2014; 2.20%	116,707	-	14,477	102,230	14,797
OWDA Sewer Construction and Separation; Matures 2014; 2.2%	240,653	-	25,310	215,343	31,659
OWDA WWTP Improvements; Matures 2015; 2.20%	662,186	-	71,666	590,520	76,607
OWDA Loan; Matures 2021; 4.65%	5,512,354	-	228,462	5,283,892	239,494
OPWC Loan; Matures 2015; Interest Free	243,000	-	27,000	216,000	27,000
OPWC Loan; Matures 2023; Interest Free	227,564	-	12,642	214,922	12,642
OPWC Loan; Matures 2023; Interest Free	66,850	-	3,820	63,030	3,820
Capital Improvement Bonds; Series 2005 3 to 4.80%	487,000	-	-	487,000	16,000
Capital Leases	30,777	-	18,255	12,522	12,522
Compensated Absences Payable	175,484	17,495	55,159	137,820	89,894
Total Governmental Activities Debt	<u>\$ 8,025,961</u>	<u>\$ 17,495</u>	<u>\$ 483,560</u>	<u>\$ 7,559,896</u>	<u>\$ 551,797</u>

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Business-Type Activities:</b>	<b>Principal Balance 12/31/2006</b>	<b>Additions</b>	<b>Retirements</b>	<b>Principal Balance 12/31/2007</b>	<b>Amounts Due in One Year</b>
Capital Leases	\$ 29,856	\$ -	\$ 29,856	\$ -	\$ -
Compensated Absences Payable	52,768	6,971	-	59,739	41,284
<b>Total Business-Type Debt</b>	<b>\$ 82,624</b>	<b>\$ 6,971</b>	<b>\$ 29,856</b>	<b>\$ 59,739</b>	<b>\$ 41,284</b>

Outstanding general obligation notes consist of a WWTP Improvement issues. 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 outstanding OWDA loans consist of loan agreements between the City and the Ohio Water Development Authority for the construction of sewer lines and a new reservoir. The loans will be paid off from City income taxes.

The annual requirements to amortize all bonded debts outstanding as of December 31, 2007, including total interest payments of \$2,839,461 are as follows:

<b>Year Ending December 31,</b>	<b>OWDA Loans</b>	<b>OPWC Loans</b>	<b>Capital Improvement Bonds</b>	<b>Total</b>
2008	\$ 658,192	\$ 43,462	\$ 36,966	\$ 738,620
2009	658,192	43,462	37,422	739,076
2010	658,192	43,462	37,819	739,473
2011	658,292	43,462	38,162	739,916
2012	658,192	43,462	38,449	740,103
2013-2017	2,784,429	163,311	198,364	3,146,104
2018-2022	2,413,676	82,315	208,716	2,704,707
2013-2025	235,073	31,016	131,674	397,763
Less: Interest Expense	(2,295,636)	-	(240,572)	(2,536,208)
<b>Total Principal</b>	<b>\$ 6,428,602</b>	<b>\$ 493,952</b>	<b>\$ 487,000</b>	<b>\$ 7,409,554</b>

**NOTE 10 -- CAPITAL LEASES**

The City has entered into a lease agreement as lessee for financing the acquisition of a police, municipal court, and general office copiers, police cruisers and machinery for the Wastewater department. 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 cost of these capital leases is included in the governmental and business-type activities. The original cost of assets acquired under capital lease and included in the governmental activities was \$180,367 and the book value at December 31, 2007 was \$54,322. The original cost of assets acquired under capital lease and included in the business-type activities was \$142,099 and the book value at December 31, 2006 was \$56,839. 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, 2007:

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Year Ending December 31	Governmental Activities
2008	\$ 13,432
Total Minimum Lease Payments	13,432
Less Amount Representing Interest	(910)
Present Value of Future Minimum Lease Payments	\$ 12,522

**NOTE 11 -- DEFINED BENEFIT PENSION 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 Disability and 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) administers three separate pension plans. The Traditional Pension Plan (TP) is a cost-sharing multiple-employer defined benefit pension plan. The Member-Directed Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The Combined Plan (CO) is a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement and disability, survivor and death benefits and annual cost of living adjustments to the Traditional Plan and Combined Plans. Members of the Member-Director Plan do not qualify for ancillary benefits. 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. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2007 member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan. The 2007 member contribution rates were 9.5% for members in state, local, and public safety classifications. Members in law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed 9.75%. The 2007 rate for state employers was 13.77% of covered payroll. For local government employer contribution rate was 13.85% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2007 was 17.17%. The City's contributions for pension obligations to OPERS for the years ended December 31, 2007, 2006, and 2005 were \$344,197, \$217,778, and \$219,588; respectively; 85.12% representing the paid contribution for 2007 and 100% for 2006 and 2005. \$51,217 representing the unpaid contribution for 2007 is recorded as an expenditure to the individual funds that incurred the costs.

**Ohio Police and Fireman's Disability and Pension Fund** - The City contributes to the Ohio Police and Fireman's Disability and Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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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 Police and Fireman's Disability and 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, 2007, 2006, and 2005 were \$131,745, \$126,872, and \$114,636, respectively, equal to the required contributions for the year. 68.48% has been contributed for 2007 and 100 percent for 2006 and 2005. \$43,040 representing the unpaid contribution for 2007 is recorded as an expenditure to the individual funds that incurred the costs.

**NOTE 12 -- POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

Ohio Public Employees Retirement System (OPERS) - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans. The Traditional Pension Plan is a cost-sharing multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2007, state employers contributed at a rate of 13.77% of covered payroll of active members, local government employer units contributed 13.85% of covered payroll, and public safety and law enforcement employer units contributed at 17.17%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units, and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPERS for the years ending December 31, 2007, 2006, and 2005 were \$325,758, \$217,718 and \$219,588, respectively, of which \$128,565, \$81,186 and \$81,029, respectively, was allocated to the healthcare plan.

The health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**Ohio Police and Firemen's Disability and Pension Fund**

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

The Ohio Police and Firemen's Disability and Pension Fund (OP&F) provides access to post retirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 45.

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

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

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F's post employment healthcare plan was established and is administrated as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F board of trustees. The board of trustees is authorized to allocate a portion of the total employer contributions made into the pension plan for the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, the employer contribution allocated to the healthcare plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Section 401(h).

The OP&F board of trustees also is authorized to establish requirements for contributions to the healthcare

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F for the years ending December 31, 2007, 2006, and 2005 were \$136,560, \$126,872 and \$114,636, respectively, of which \$43,647, \$45,938 and \$43,529, respectively, was allocated to the healthcare plan.

**NOTE 13 -- CONTINGENT LIABILITIES**

**A. Federal and State Grants**

The City participates in several federally assisted programs. These programs are subject to financial and compliance audits by grantor agencies or their representative. 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.

**B. Litigation**

The City may be 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.

**NOTE 14 – TRANSFERS**

Interfund transfers for the year ended December 31, 2007, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 1,186,301
Park	335,755	-
Capital Improvement Fund	1,183,707	-
Water	-	333,161
Totals	<u>\$ 1,519,462</u>	<u>\$ 1,519,462</u>

In the year ended December 31, 2007, the City made a transfer of \$333,161 from the water fund to the capital improvements fund to subsidize, in part, the Ohio Water Development Authority (OWDA) loans found on the government-wide financial statements.

**NOTE 15 – BUDGETARY NONCOMPLIANCE**

Contrary to Ohio Revised Code 5705.36 (A) (4), the City had actual receipts that fell below estimated receipts, where the deficiency reduced estimated resources below the current level of appropriations in several funds.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Upper Sandusky  
Wyandot County  
119 North 7<sup>th</sup> Street  
Upper Sandusky, Ohio 43351

To City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Upper Sandusky, Wyandot County, Ohio (the "City") as of and for the year ended December 31, 2007, and have issued our report thereon dated July 28, 2009. 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.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our 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 the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is reported in the accompanying Schedule of Findings as item number 2007-1.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We noted certain matters that we have reported to management of the City in a separate letter dated July 28, 2009.

This report is intended solely for the information and use of the finance committee, management and the City. It is not intended to be and should not be used by anyone other than these specified parties.

***Charles E. Harris & Associates, Inc.***

July 28, 2009

CITY OF UPPER SANDUSKY  
WYANDOT COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2007

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

FINDING NUMBER 2007-1

Noncompliance Citation

**Ohio Revised Code Section 5705.36** allows subdivisions to request increased amended certificates of estimated resources and reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

The following funds had actual revenues which were less than budgeted revenues, reducing estimated resources below appropriations, in the following amounts at December 31:

	<b>2007</b>
<b>CAPITAL PROJECTS FUND:</b>	
Capital Improvement Fund	\$(642,649)
<b>ENTERPRISE FUNDS:</b>	
Wastewater Fund	(113,743)

By not amending its certificate of estimated resources, Council cannot make reasonable decisions regarding the monies it has available for appropriation and expenditure. Management and Council should monitor its budgeted revenues versus its actual revenues throughout the year and amend its certificate of estimated resources accordingly.

**Management Response**

We will monitor actual versus budget amounts to determine if our appropriations must be adjusted due to a shortfall in receipts. We will request amended certificate of receipts as necessary along with the reduction of appropriations.

## **STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS**

The prior audit report, for the year ending December 31, 2006, reported no material citations or recommendations.



Mary Taylor, CPA  
Auditor of State

**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 22, 2009**