

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

**AUDIT REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2008**

***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, 2008 through December 31, 2008. 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, 2008**

**TABLE OF CONTENTS**

	<u>PAGE</u>
REPORT OF INDEPENDENT ACCOUNTANTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
GOVERNMENT WIDE STATEMENTS:	
STATEMENT OF NET ASSETS	8
STATEMENT OF ACTIVITIES	9
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET - GOVERNMENTAL FUNDS	10
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	12
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL	
GENERAL FUND	14
STATEMENT OF NET ASSETS - PROPRIETARY FUND	15
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS	16
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	17
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS	18
NOTES TO THE FINANCIAL STATEMENTS	19
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AND AUDIT OF THE FINANCIAL STATEMENTS REQUIRED BY <i>GOVERNMENT AUDITING STANDARDS</i>	42
SCHEDULE OF FINDINGS	44
STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS	45

***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, 2008, 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, 2008, 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, 2008*  
*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, 2008. 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 2008 are as follows:

- The City was able to increase net assets during 2008, changing \$363,383.
- Total Assets were \$29,501,604.
- Total Liabilities were \$7,911,377.

### **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 2008?" 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, 2008  
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 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 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 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 2008 and 2007:

Table 1  
Net Assets

	Governmental Activities 2008	Governmental Activities 2007	Business-Type Activities 2008	Business-Type Activities 2007	2008 Total	2007 Total
<b>Assets</b>						
Current and Other Assets	\$ 2,505,868	\$ 3,030,769	\$ 672,013	\$ 612,780	\$ 3,177,881	\$ 3,643,549
Capital Assets	7,988,504	7,163,776	18,335,219	18,566,081	26,323,723	25,729,857
Total Assets	10,494,372	10,194,545	19,007,232	19,178,861	29,501,604	29,373,406
<b>Liabilities</b>						
Current and Other Liabilities	413,940	399,395	147,173	127,532	561,113	526,927
Long-Term Liabilities	7,135,171	7,559,896	215,093	59,739	7,350,264	7,619,635
Total Liabilities	7,549,111	7,959,291	362,266	187,271	7,911,377	8,146,562
<b>Net Assets</b>						
Invested in Capital Assets, Net	7,949,273	7,151,254	18,176,963	18,566,081	26,126,236	25,717,335
Restricted	100,139	109,951	-	-	100,139	109,951
Unrestricted (Deficit)	(5,104,151)	(5,025,951)	468,003	425,509	(4,636,148)	(4,600,442)
Total Net Assets	<u>\$ 2,945,261</u>	<u>\$ 2,235,254</u>	<u>\$ 18,644,966</u>	<u>\$ 18,991,590</u>	<u>\$ 21,590,227</u>	<u>\$ 21,226,844</u>

From last year, assets increased by \$128,198. The new bike path contributed by the State of Ohio in the amount of \$711,000 was the main reason for the increase in assets.

The net assets of the City's governmental activities increased by \$710,007. Again this was primarily due to the change in capital assets. The net assets of the City's business-type activities decreased by \$346,624 which required an increase in utility rates.

City of Upper Sandusky  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

Table 2 shows the changes in net assets for the year 2008 as compared to 2007.

Table 2  
Changes in Net Assets

	Governmental Activities 2008	Governmental Activities 2007	Business-Type Activities 2008	Business-Type Activities 2007	2008 Total	2007 Total
<b>Revenue</b>						
Program Revenues:						
Charges for Services	\$ 60,066	\$ 57,801	\$ 2,825,770	\$ 2,733,486	\$ 2,885,836	\$ 2,791,287
Operating Grants	352,570	247,177	-	-	352,570	247,177
Capital Grants and Contributions	793,501	-	-	-	793,501	-
General Revenue:						
Property and Income Taxes	2,392,719	2,709,260	-	-	2,392,719	2,709,260
Fines and Forfeitures	658,288	661,653	-	-	658,288	661,653
Grants and Entitlements	671,054	684,585	-	-	671,054	684,585
Licenses and Permits	87,832	101,751	-	-	87,832	101,751
Investment Earnings	44,359	94,002	6,198	9,934	50,557	103,936
Other	145,338	210,895	22,238	59,550	167,576	270,445
Transfers	241,080	333,161	(241,080)	(333,161)	-	-
<b>Total Revenues</b>	<b>5,446,807</b>	<b>5,100,285</b>	<b>2,613,126</b>	<b>2,469,809</b>	<b>8,059,933</b>	<b>7,570,094</b>
<b>Program Expenses</b>						
General Government – Legislative and Executive	653,651	723,456	-	-	653,651	723,456
General Government – Judicial	774,491	594,388	-	-	774,491	594,388
Security of Persons and Property	1,614,442	1,561,428	-	-	1,614,442	1,561,428
Public Health	42,899	44,579	-	-	42,899	44,579
Transportation	510,931	445,034	-	-	510,931	445,034
Community Environment	211,590	328,663	-	-	211,590	328,663
Basic Utility Services	72,352	76,695	-	-	72,352	76,695
Leisure Time Activities	561,303	404,324	-	-	561,303	404,324
Interest and Fiscal Charges	292,742	301,283	-	-	292,742	301,283
Unallocated Depreciation	2,399	2,511	-	-	2,399	2,511
Water	-	-	1,296,406	1,200,960	1,296,406	1,200,960
Sewer	-	-	918,838	673,665	918,838	673,665
Sanitation	-	-	744,506	732,644	744,506	732,644
<b>Total Expenses</b>	<b>4,736,800</b>	<b>4,482,361</b>	<b>2,959,750</b>	<b>2,607,269</b>	<b>7,696,550</b>	<b>7,089,630</b>
<b>Change in Net Assets</b>	<b>\$ 710,007</b>	<b>\$ 617,924</b>	<b>\$ (346,624)</b>	<b>\$ (137,460)</b>	<b>\$ 363,383</b>	<b>\$ 480,464</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 43.9 percent of revenues for governmental activities in calendar year 2008.

General Government Legislative and Executive comprise 13.8 percent of governmental program expenses. Interest expense was 6.2 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, 2008*  
*Unaudited*

Table 3  
 Governmental Activities

	Total Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2008	Net Cost of Services 2007
Governmental Activities:				
General Government - Legislative and Executive	\$ 653,651	\$ 723,456	\$ 653,651	\$ 723,456
General Government - Judicial	774,491	594,388	774,491	594,388
Security of Persons and Property	1,614,442	1,561,428	1,586,126	1,539,258
Public Health and Welfare	42,899	44,579	42,899	44,579
Transportation	510,931	445,034	158,361	208,803
Community Environment	211,590	328,663	211,590	317,717
Basic Utility Services	72,352	76,695	72,352	76,695
Leisure Time Activities	561,303	404,324	(263,948)	368,693
Interest and Fiscal Charges	292,742	301,283	292,742	301,283
Unallocated Depreciation	2,399	2,511	2,399	2,511
Total Expenses	<u>\$ 4,736,800</u>	<u>\$ 4,482,361</u>	<u>\$ 3,530,663</u>	<u>\$ 4,177,383</u>

The dependence upon tax revenues for governmental activities is apparent. Taxes and other general revenues support over 99.4 percent of Security of Persons and Property expenses. For all governmental activities revenue support is 88.0 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 \$2,854,206 and expenses of \$3,200,830 for the year 2008 or a decrease of \$346,624 in net assets. To also insure that net assets are not further reduced in 2008, the City increased utility rates and 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 \$4,585,523 and expenditures of \$5,334,397. 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 \$(444,421) 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 2008 the City amended its general fund budget very little, and none were significant. The City uses departmental 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 \$4,101,800, which was not revised during 2008. The original appropriations of \$4,438,560 were increased to \$4,488,060, with final expenditures of \$4,252,057.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of the 2008 the City had \$26,323,723 invested in land, buildings, equipment and vehicles in governmental and business-type activities. Table 4 shows the 2008 balances compared to 2007 balances.

City of Upper Sandusky  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*Unaudited*

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

	Governmental Activities 2008	Governmental Activities 2007	Business-Type Activities 2008	Business-Type Activities 2007	2008 Totals	2007 Totals
Land	\$ 914,409	\$ 884,909	\$ 883,242	\$ 883,242	\$ 1,797,651	\$ 1,768,151
Buildings and Improvements	5,524,268	4,538,315	5,490,107	5,490,107	11,014,375	10,028,422
Machinery and Equipment	1,866,622	1,805,628	1,554,612	1,554,612	3,421,234	3,360,240
Vehicles	1,538,339	1,506,498	933,187	933,187	2,471,526	2,439,685
Infrastructure	2,149,420	1,980,169	15,403,804	15,403,804	17,553,224	17,383,973
Construction In Progress	-	-	198,946	-	198,946	-
Total	11,993,058	10,715,519	24,463,898	24,264,952	36,456,956	34,980,471
Less: Accumulated Depreciation	(4,004,554)	(3,551,743)	(6,128,679)	(5,698,871)	(10,133,233)	(9,250,614)
Totals	<u>\$ 7,988,504</u>	<u>\$ 7,163,776</u>	<u>\$ 18,335,219</u>	<u>\$ 18,566,081</u>	<u>\$ 26,323,723</u>	<u>\$ 25,729,857</u>

All capital assets were maintained throughout the year, with only a few notable additions in the infrastructure of the water and sewer funds and a bike path that was contributed by the State of Ohio in the amount of \$711,000.

**Debt**

At December 31, 2008 the City had \$7,161,791 in loans and leases outstanding, \$646,032 due within one year.

Table 5 summarizes bond and notes outstanding for December 31, 2008 compared to 2007.

Outstanding Debt, at Year End

	Governmental Activities 2008	Governmental Activities 2007	Business-Type Activities 2008	Business-Type Activities 2007
OWDA Loans Payable	\$ 6,042,814	\$ 6,428,602	\$ 158,256	\$ -
OPWC Loans Payable	450,490	493,952	-	-
Capital Improvement Bonds	471,000	487,000	-	-
Capital Leases Payable	39,231	12,522	-	-
Total Outstanding Debt	<u>\$ 7,003,535</u>	<u>\$ 7,422,076</u>	<u>\$ 158,256</u>	<u>\$ -</u>

**For the Future**

The City is presently finding it difficult to remain financially stable. As the preceding information shows, the City heavily depends on its municipal income tax. It will need to operate below the pre-2008 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, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,078,135	\$ 443,108	\$ 1,521,243
Receivables:			
Taxes	892,032	-	892,032
Accounts	72,480	214,204	286,684
Accrued Interest	321	91	412
Internal Balances	24,547	(24,547)	-
Due from Other Governments	338,214	-	338,214
Material and Supplies Inventory	45,293	39,157	84,450
Notes Receivable	54,846	-	54,846
Land	914,409	883,242	1,797,651
Capital Assets, Net of Depreciation	7,074,095	17,451,977	24,526,072
Total Assets	<u>\$ 10,494,372</u>	<u>\$ 19,007,232</u>	<u>\$ 29,501,604</u>
<u>Liabilities</u>			
Accounts Payable	\$ 125,856	\$ 74,249	\$ 200,105
Accrued Wages	91,051	43,615	134,666
Due to Other Governments	104,971	29,309	134,280
Claim and Judgements Payable	58,482	-	58,482
Accrued Interest Payable	33,580	-	33,580
Long-Term Liabilities			
Due Within One Year	577,957	196,153	774,110
Due More Than One Year	6,557,214	18,940	6,576,154
Total Liabilities	<u>7,549,111</u>	<u>362,266</u>	<u>7,911,377</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	7,949,273	18,176,963	26,126,236
Restricted for:			
Other Purposes	100,139	-	100,139
Unrestricted (deficit)	(5,104,151)	468,003	(4,636,148)
Total Net Assets	<u>\$ 2,945,261</u>	<u>\$ 18,644,966</u>	<u>\$ 21,590,227</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Activities  
For the Year Ended December 31, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Primary Government		Total
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary government:</b>							
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 653,651	\$ -	\$ -	\$ -	\$ (653,651)	\$ -	\$ (653,651)
Judicial	774,491	-	-	-	(774,491)	-	(774,491)
Security of Persons and Property	1,614,442	28,316	-	-	(1,586,126)	-	(1,586,126)
Public Health and Welfare	42,899	-	-	-	(42,899)	-	(42,899)
Transportation	510,931	-	352,570	-	(158,361)	-	(158,361)
Community Environment	211,590	-	-	-	(211,590)	-	(211,590)
Basic Utility Services	72,352	-	-	-	(72,352)	-	(72,352)
Leisure Time Activities	561,303	31,750	-	793,501	263,948	-	263,948
Interest Expense	292,742	-	-	-	(292,742)	-	(292,742)
Unallocated Depreciation	2,399	-	-	-	(2,399)	-	(2,399)
Total Governmental Activities	<u>4,736,800</u>	<u>60,066</u>	<u>352,570</u>	<u>793,501</u>	<u>(3,530,663)</u>	<u>-</u>	<u>(3,530,663)</u>
Business-Type activities:							
Water Fund	1,296,406	1,442,952	-	-	-	146,546	146,546
Sewer Fund	918,838	698,534	-	-	-	(220,304)	(220,304)
Sanitation Fund	744,506	684,284	-	-	-	(60,222)	(60,222)
Total Business-Type activities	<u>2,959,750</u>	<u>2,825,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(133,980)</u>	<u>(133,980)</u>
Total primary government	<u>\$ 7,696,550</u>	<u>\$ 2,885,836</u>	<u>\$ 352,570</u>	<u>\$ 793,501</u>	<u>(3,530,663)</u>	<u>(133,980)</u>	<u>(3,664,643)</u>
General revenues:							
Taxes:							
Municipal Income Tax					2,008,777	-	2,008,777
Property Taxes, Levied for General Purposes					383,942	-	383,942
Fines and Forfeitures					658,288	-	658,288
Licenses & Permits					87,832	-	87,832
Grants and Contributions Not Restricted to Specific Programs					671,054	-	671,054
Unrestricted Investment Earnings					44,359	6,198	50,557
Miscellaneous					145,338	22,238	167,576
Transfers					241,080	(241,080)	-
Total General Revenues					<u>4,240,670</u>	<u>(212,644)</u>	<u>4,028,026</u>
Change in Net Assets					710,007	(346,624)	363,383
Net Assets - January 1, 2008					<u>2,235,254</u>	<u>18,991,590</u>	<u>21,226,844</u>
Net Assets - December 31, 2008					<u>\$ 2,945,261</u>	<u>\$ 18,644,966</u>	<u>\$ 21,590,227</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Balance Sheet  
 Governmental Funds  
 December 31, 2008

	<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	\$ 352,449	\$ 194,885	\$ 530,801	\$ 1,078,135
Receivables:				
Taxes	892,032	-	-	892,032
Accounts	57,978	-	14,502	72,480
Accrued Interest	165	41	115	321
Due from Other Governments	165,196	-	173,018	338,214
Materials and Supplies Inventory	3,458	-	41,835	45,293
Notes Receivable	-	-	54,846	54,846
	<u>-</u>	<u>-</u>	<u>54,846</u>	<u>54,846</u>
 Total Assets	 <u>\$ 1,471,278</u>	 <u>\$ 194,926</u>	 <u>\$ 815,117</u>	 <u>\$ 2,481,321</u>
 <u>Liabilities</u>				
Accounts Payable	95,267	\$ 3,564	\$ 27,025	\$ 125,856
Accrued Wages and Benefits	74,905	-	16,146	91,051
Due to Other Funds	28,768	-	5,167	33,935
Due to Other Governments	91,132	-	13,839	104,971
Deferred Revenue	985,817	-	112,298	1,098,115
	<u>985,817</u>	<u>-</u>	<u>112,298</u>	<u>1,098,115</u>
 Total Liabilities	 <u>1,275,889</u>	 <u>3,564</u>	 <u>174,475</u>	 <u>1,453,928</u>
 <u>Fund Balances</u>				
Reserved for Inventory	3,458	-	41,835	45,293
Reserved for Notes Receivable	-	-	54,846	54,846
Unreserved , Undesignated, Reported in:				
General Fund	191,931	-	-	191,931
Special Revenue Funds	-	-	543,961	543,961
Capital Projects Funds	-	191,362	-	191,362
	<u>191,931</u>	<u>191,362</u>	<u>543,961</u>	<u>827,254</u>
 Total Fund Balances	 <u>195,389</u>	 <u>191,362</u>	 <u>640,642</u>	 <u>1,027,393</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,471,278</u>	 <u>\$ 194,926</u>	 <u>\$ 815,117</u>	 <u>\$ 2,481,321</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, 2008

Total Governmental Fund Balances \$ 1,027,393

*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. 7,988,504

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	\$ 58,482	
Claims and Judgments Payable	<u>(58,482)</u>	-

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

Municipal Income Taxes	\$ 626,398	
Delinquent Property Taxes	257,472	
Grants	<u>214,245</u>	1,098,115

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	\$ (33,580)	
Compensated Absences Payable	(131,637)	
Loans Payable	(6,493,303)	
Bonds Payable	(471,000)	
Capital Leases Payable	<u>(39,231)</u>	<u>(7,168,751)</u>

Net Assets of Governmental Activities		<u><u>\$ 2,945,261</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, 2008

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Municipal Income Tax	\$ 2,043,800	\$ -	\$ -	\$ 2,043,800
Property and Other Taxes	391,809	-	16,951	408,760
Intergovernmental	691,615	82,501	360,936	1,135,052
Investment Income	24,245	11,142	11,000	46,387
Licenses and Permits	87,832	-	-	87,832
Fines and Forfeitures	489,481	-	168,807	658,288
Charges for Services	28,316	-	31,750	60,066
Other	43,249	50,060	52,029	145,338
<b>Total Revenue</b>	<b>3,800,347</b>	<b>143,703</b>	<b>641,473</b>	<b>4,585,523</b>
Expenditures:				
Current:				
General Government:				
Legislative and Executive	692,549	-	-	692,549
Judicial	612,890	-	150,109	762,999
Security of Persons and Property	1,669,211	33,247	10,946	1,713,404
Public Health and Welfare	42,899	-	-	42,899
Transportation	-	159,906	411,378	571,284
Community Environment	59,963	35,272	30,975	126,210
Basic Utilities	-	3,153	-	3,153
Leisure Time Activities	-	290,992	359,011	650,003
Debt Service:				
Principal Retirement	36,664	445,250	-	481,914
Interest and Fiscal Charges	1,683	288,299	-	289,982
<b>Total Expenditures</b>	<b>3,115,859</b>	<b>1,256,119</b>	<b>962,419</b>	<b>5,334,397</b>
Excess of Revenues Over (Under) Expenditures	684,488	(1,112,416)	(320,946)	(748,874)
Other Financing Sources (Uses):				
Inception of Capital Lease	63,373	-	-	63,373
Transfers - In	-	1,024,277	320,102	1,344,379
Transfers - Out	(1,103,299)	-	-	(1,103,299)
<b>Total Other Sources (Uses)</b>	<b>(1,039,926)</b>	<b>1,024,277</b>	<b>320,102</b>	<b>304,453</b>
Net Change in Fund Balance	(355,438)	(88,139)	(844)	(444,421)
Fund Balances (Deficit) at Beginning of Year	552,222	279,501	641,560	1,473,283
Increase (Decrease) in Reserve for Inventory	(1,395)	-	(74)	(1,469)
<b>Fund Balances (Deficits) End of Year</b>	<b>\$ 195,389</b>	<b>\$ 191,362</b>	<b>\$ 640,642</b>	<b>\$ 1,027,393</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, 2008

Net Change in Fund Balances-Total Governmental Funds \$ (444,421)

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	\$ 1,302,018	
Depreciation	<u>(477,290)</u>	824,728

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

Municipal Income Taxes	\$ (35,023)	
Delinquent Property Taxes	(24,818)	
Investment Income	(2,028)	
Intergovernmental Grants	<u>(28,927)</u>	(90,796)

Proceeds for debt principal is a revenue in the  
governmental funds, but the repayment reduces long-term  
liabilities in the statement of net assets.

Inception of Capital Lease	\$ (63,373)	
Principal Payments	<u>481,914</u>	418,541

In the statement of activities, interest is accrued on  
outstanding loans, whereas in governmental funds, an  
interest expenditure is reported when due. (2,760)

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

Decrease in Compensated Absences	\$ 6,184	
Change in Inventory	<u>(1,469)</u>	<u>4,715</u>

Change in Net Assets of Governmental Activities \$ 710,007

City of Upper Sandusky  
Statement of Revenues, Expenditures and Char  
in Fund Balance - Budget (Non-GAAP Basis)  
General Fund

For the Year Ended December 31, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
<b>Revenues:</b>				
Municipal Income Tax	\$ 2,300,000	\$ 2,300,000	\$ 2,112,427	\$ (187,573)
Property and Other Taxes	449,000	449,000	394,846	(54,154)
Charges for Services	19,500	19,500	28,316	8,816
Licenses and Permits	120,500	120,500	86,820	(33,680)
Fines and Forfeitures	506,000	506,000	487,597	(18,403)
Intergovernmental	555,800	555,800	744,625	188,825
Investment Income	40,000	40,000	25,111	(14,889)
Other	111,000	111,000	43,352	(67,648)
<b>Total Revenue</b>	<b>4,101,800</b>	<b>4,101,800</b>	<b>3,923,094</b>	<b>(178,706)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General Government:</b>				
Legislative and Executive	754,725	792,542	750,473	42,069
Judicial	611,950	620,267	595,554	24,713
Security of Persons and Property	1,643,360	1,606,716	1,628,496	(21,780)
Public Health and Welfare	49,500	49,500	42,899	6,601
Community Environment	61,425	61,425	59,715	1,710
<b>Debt Service:</b>				
Principal Retirement	-	36,644	36,644	-
Interest and Fiscal Charges	-	1,683	1,683	-
<b>Total Expenditures</b>	<b>3,120,960</b>	<b>3,168,777</b>	<b>3,115,464</b>	<b>53,313</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>980,840</b>	<b>933,023</b>	<b>807,630</b>	<b>(125,393)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers - Out	(1,317,600)	(1,317,600)	(1,103,299)	214,301
<b>Total Other Sources (Uses)</b>	<b>(1,317,600)</b>	<b>(1,317,600)</b>	<b>(1,103,299)</b>	<b>214,301</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	<b>(336,760)</b>	<b>(384,577)</b>	<b>(295,669)</b>	<b>88,908</b>
<b>Fund Balances (Deficit) at Beginning of Year</b>	<b>638,474</b>	<b>638,474</b>	<b>638,474</b>	<b>-</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$ 301,714</b>	<b>\$ 253,897</b>	<b>\$ 342,805</b>	<b>\$ 88,908</b>

See accompanying notes to the basic financial

City of Upper Sandusky

Statement of Net Assets  
 Proprietary Funds  
 December 31, 2008

	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	\$ 124,228	\$ 227,218	\$ 91,662	\$ 443,108	\$ -
Receivables:					
Accounts	107,941	47,615	58,648	214,204	-
Accrued Interest	21	70	-	91	-
Due from Other Funds	-	-	-	-	58,482
Inventory of Supplies	32,826	6,331	-	39,157	-
Total Current Assets	<u>265,016</u>	<u>281,234</u>	<u>150,310</u>	<u>696,560</u>	<u>58,482</u>
Capital Assets, No Depreciation	612,422	270,820	-	883,242	-
Capital Assets, Net of A/D	8,694,881	8,738,513	18,583	17,451,977	-
Total Assets	<u>\$ 9,572,319</u>	<u>\$ 9,290,567</u>	<u>\$ 168,893</u>	<u>\$ 19,031,779</u>	<u>\$ 58,482</u>
<b>Liabilities:</b>					
Accounts Payable	\$ 27,598	\$ 30,376	\$ 16,275	\$ 74,249	\$ -
Accrued Wages and Benefits	22,312	9,206	12,097	43,615	-
Compensated Absences Payable	20,261	4,899	12,737	37,897	-
Due to Other Funds	10,677	5,402	8,468	24,547	-
Due to Other Governments	16,556	5,815	6,938	29,309	-
Claims Payable	-	-	-	-	58,482
OWDA Loan Payable	158,256	-	-	158,256	-
Total Current Liabilities	<u>255,660</u>	<u>55,698</u>	<u>56,515</u>	<u>367,873</u>	<u>58,482</u>
Compensated Absences Payable	11,404	-	7,536	18,940	-
Total Liabilities	<u>267,064</u>	<u>55,698</u>	<u>64,051</u>	<u>386,813</u>	<u>58,482</u>
<b>Net Assets:</b>					
Investment in Capital Assets, Net of Debt	9,149,047	9,009,333	18,583	18,176,963	-
Unrestricted	156,208	225,536	86,259	468,003	-
Total Net Assets	<u>\$ 9,305,255</u>	<u>\$ 9,234,869</u>	<u>\$ 104,842</u>	<u>\$ 18,644,966</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, 2008

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Sanitation Fund	Totals	
Operating Revenues:					
Charges for Services	\$ 1,442,952	\$ 698,534	\$ 684,284	\$ 2,825,770	\$ 674,023
Other Operating Revenues	15,370	6,868	-	22,238	-
Total Operating Revenues	<u>1,458,322</u>	<u>705,402</u>	<u>684,284</u>	<u>2,848,008</u>	<u>674,023</u>
Operating Expenses:					
Personal Services	656,095	302,195	365,024	1,323,314	-
Contractual Services	167,725	232,925	240,457	641,107	-
Claims and Judgements	-	-	-	-	674,023
Materials and Supplies	297,450	181,990	58,091	537,531	-
Other Operating Expenses	27,969	-	21	27,990	-
Depreciation	147,167	201,728	80,913	429,808	-
Total Operating Expenses	<u>1,296,406</u>	<u>918,838</u>	<u>744,506</u>	<u>2,959,750</u>	<u>674,023</u>
Operating Income (Loss)	<u>161,916</u>	<u>(213,436)</u>	<u>(60,222)</u>	<u>(111,742)</u>	<u>-</u>
Non-Operating Revenues (Expenses):					
Interest Income	423	4,546	1,229	6,198	-
Total Non-Operating Revenues (Expenses)	<u>423</u>	<u>4,546</u>	<u>1,229</u>	<u>6,198</u>	<u>-</u>
Income (Loss) before transfers	162,339	(208,890)	(58,993)	(105,544)	-
Transfers - Out	<u>(241,080)</u>	<u>-</u>	<u>-</u>	<u>(241,080)</u>	<u>-</u>
Change in Net Assets	(78,741)	(208,890)	(58,993)	(346,624)	-
Total Net Assets at Beginning of Year	<u>9,383,996</u>	<u>9,443,759</u>	<u>163,835</u>	<u>18,991,590</u>	<u>-</u>
Total Net Assets at End of Year	<u>\$ 9,305,255</u>	<u>\$ 9,234,869</u>	<u>\$ 104,842</u>	<u>\$ 18,644,966</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, 2008

	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	\$ 1,510,275	\$ 749,524	\$ 699,236	\$ 2,959,035	\$ 674,175
Cash Paid to Employees	(653,600)	(303,672)	(354,101)	(1,311,373)	-
Cash Paid to Suppliers	(484,264)	(402,192)	(302,409)	(1,188,865)	(674,175)
Net Cash Provided by (Used in) Operating Activities	372,411	43,660	42,726	458,797	-
<b>Cash flows from Investing Activities:</b>					
Purchase of Capital Assets	(198,946)	-	-	(198,946)	-
Interest Income	402	4,476	1,229	6,107	-
Net Cash Provided by Investing Activities	(198,544)	4,476	1,229	(192,839)	-
<b>Cash flows from Capital and Related Financing Activities:</b>					
Proceeds of Loans	158,256	-	-	158,256	-
Transfer - Out	(241,080)	-	-	(241,080)	-
Net Cash Provided by Capital and Related Financing Activities	(82,824)	-	-	(82,824)	-
Net Increase (Decrease) in Cash and Cash Equivalents	91,043	48,136	43,955	183,134	-
Cash and Cash Equivalents, Beginning of Year	33,185	179,082	47,707	259,974	-
Cash and Cash Equivalents, End of Year	\$ 124,228	\$ 227,218	\$ 91,662	\$ 443,108	\$ -
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>					
Operating Income (Loss)	\$ 161,916	\$ (213,436)	\$ (60,222)	\$ (111,742)	\$ -
Adjustments:					
Net Cash from Operating Activities:					
Depreciation Expense	147,167	201,728	80,913	429,808	-
(Increase) Decrease in Assets:					
Accounts Receivable	51,953	44,122	14,952	111,027	-
Inventory	10,985	557	-	11,542	-
Increase (Decrease) in Liabilities:					
Accounts Payable	(2,105)	12,166	(3,840)	6,221	-
Accrued Wages and Benefits	3,952	2,645	12,097	18,694	-
Compensated Absences Payable	1,779	(3,999)	(682)	(2,902)	-
Due to Other Funds	263	650	510	1,423	152
Due to Other Governments	(3,499)	(773)	(1,002)	(5,274)	-
Claims and Judgments Payable	-	-	-	-	(152)
Total Adjustments	210,495	257,096	102,948	570,539	-
Net Cash Provided by Operating Activities	\$ 372,411	\$ 43,660	\$ 42,726	\$ 458,797	\$ -

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Fiduciary Net Assets

December 31, 2008

<u>Assets:</u>	<u>Agency</u>
Cash and Cash Equivalents:	
In Segregated Accounts	\$ 57,520
Total Assets	<u>\$ 57,520</u>
<u>Liabilities:</u>	
Undistributed Monies	\$ 27,065
Payroll Withholdings	30,455
Total Liabilities	<u>\$ 57,520</u>

See accompanying notes to the basic financial statements.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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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, 2008**

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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.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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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, investment trust funds or private-purpose trust funds. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City presently has two agency funds, the Municipal Court and Payroll Agency Funds.

**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

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and 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, 2008, but which were levied to finance 2009 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:

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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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 2008.

**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.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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During 2008, investments were limited to certificates of deposit, money market accounts, passbook 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 2008 amounted to \$24,245 which included \$16,789 assigned from other funds of the City.

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAR Ohio) during the year 2008. 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, 2008.

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, 2008, 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

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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sidewalks, drainage systems and lighting systems have been capitalized under requirements of the 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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
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.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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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 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. The City recognized a bike path of \$711,000 contributed by the State of Ohio.

**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 transfers in or out. 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.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**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 2008.

**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 is 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:	\$ (295,669)
Adjustments:	
Revenue Accruals:	
Accrued 2007, Received in Cash 2008	(170,741)
Accrued 2008, Not yet Received in Cash	47,994
Expenditure Accruals:	
Accrued 2008, Not yet Paid in Cash	261,846
Accrued 2007, Paid in Cash 2008	(271,885)
Encumbrances	9,644
Other Financial Sources:	
Inception of Capital Leases	63,373
GAAP Basis	<u>\$ (355,438)</u>

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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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

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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, \$750 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 \$1,578,013 and the bank balance was \$1,620,551. Of the bank balance:

1. \$751,098 was covered by federal depository insurance;
2. \$869,453 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 at year end.

Reconciliation to Balance Sheet	
Checking Accounts	\$ 171,569
Certificates of Deposit	1,000,000
Money Market Account	379,379
Municipal Court Account	27,065
Petty Cash and Drawer Change	750
Total	\$ 1,578,763
<b>Per Balance Sheet</b>	
Equity in Pooled Cash and Investments	\$ 1,521,243
Cash in Segregated Accounts - Fiduciary Funds	57,520
Total	\$ 1,578,763

**NOTE 5 -- RECEIVABLES**

Receivables at December 31, 2008, 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.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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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 2008 for real and public utility property taxes represents collections of the 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) is for 2008 taxes.

2008 real property taxes are levied after October 1, 2008, on the assessed value as of January 1, 2008, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2008 real property taxes are collected in 2009 and are intended to finance 2009.

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. 2008 public utility property taxes became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2008 with real property taxes. Tangible personal property taxes for 2008 are levied after October 1, 2007, on the value as of December 31, 2007. Collections are made in 2008. Tangible personal property assessments are 25 percent of true value. The full tax rate for all City operations for the year ended December 31, 2008, was \$3.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Real Property - 2007 Valuation:	
Residential/Agricultural	\$ 79,209,200
Public Utilities	22,810
Commercial/Industrial	<u>36,885,370</u>
Total Real Property	<u>116,117,380</u>
Tangible Personal Property - 2008 Valuation:	
General	71,140
Public Utilities	<u>3,358,770</u>
Total Personal Property	<u>3,429,910</u>
Total Assessed Valuation	<u><u>\$ 119,547,290</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, 2008 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 2008 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 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

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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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:

	<u>Amounts</u>
<b>Governmental Activities</b>	
Local Government and Local Government	
Revenue Assistance	\$ 165,196
Gasoline and Excise Tax	125,324
Motor Vehicle License Fees	<u>47,694</u>
Total	<u>\$ 338,214</u>

**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 \$550 for single coverage, \$880 for two party coverage and \$1,321 for family coverage. All employees paid 10.6% of the premium in 2008.

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 \$58 and \$47 for single coverage, \$93 and \$75 per two party coverage and \$140 and \$113 for family coverage, which is withheld from their biweekly payroll.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

In addition, the City provides \$600 per year per non-contracted employee and \$575 for contracted employees for single coverage, \$625 for two party coverage and \$700 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 \$58,482 reported in the internal service fund at December 31, 2008 is based on the requirements of GASB Statement 10 which requires that a liability for unpaid claims costs, including estimates for costs relating to incurred but not reported claims, be reported. Changes in the fund's claims liability amount for the last two years is as follows:

Year	Beginning of Year	Claims	Payments	End of Year
2008	\$ 58,634	\$ 673,871	\$ 674,023	\$ 58,482
2007	\$ 43,296	\$ 663,390	\$ 648,052	\$ 58,634

**NOTE 7 -- CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2008:

	<u>Balance 12/31/2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2008</u>
<b>Governmental Activities:</b>				
Land	\$ 884,909	\$ 29,500	\$ -	\$ 914,409
Buildings and Improvements	4,538,315	985,953	-	5,524,268
Machinery & Equipment	1,805,628	61,274	280	1,866,622
Infrastructure	1,980,169	169,251	-	2,149,420
Vehicles	1,506,498	56,040	24,199	1,538,339
Total Capital Assets	<u>10,715,519</u>	<u>1,302,018</u>	<u>24,479</u>	<u>11,993,058</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(952,953)	(135,760)	-	(1,088,713)
Machinery & Equipment	(695,188)	(158,333)	(280)	(853,241)
Infrastructure	(721,186)	(40,794)		(761,980)
Vehicles	(1,182,416)	(142,403)	(24,199)	(1,300,620)
Total Accumulated Depreciation	<u>(3,551,743)</u>	<u>(477,290)</u>	<u>(24,479)</u>	<u>(4,004,554)</u>
Governmental Activities - Capital Assets, Net	<u>\$ 7,163,776</u>	<u>\$ 824,728</u>	<u>\$ -</u>	<u>\$ 7,988,504</u>

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance 12/31/2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2008</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	605,383	-	-	605,383
Vehicles	52,004	-	-	52,004
Infrastructure	8,430,248	-	-	8,430,248
Construction In Progress	-	198,946	-	198,946
Total Capital Assets	<u>11,266,350</u>	<u>198,946</u>	<u>-</u>	<u>11,465,296</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(714,544)	(34,960)	-	(749,504)
Machinery & Equipment	(526,412)	(6,615)	-	(533,027)
Vehicles	(52,004)	-	-	(52,004)
Infrastructure	(717,866)	(105,592)	-	(823,458)
Total Accumulated Depreciation	<u>(2,010,826)</u>	<u>(147,167)</u>	<u>-</u>	<u>(2,157,993)</u>
Capital Assets, Net	<u>\$ 9,255,524</u>	<u>\$ 51,779</u>	<u>\$ -</u>	<u>\$ 9,307,303</u>
<b><u>Wastewater</u></b>				
Land	\$ 270,820	\$ -	\$ -	\$ 270,820
Buildings and Improvements	3,923,814	-	-	3,923,814
Machinery & Equipment	784,455	-	-	784,455
Vehicles	278,143	-	-	278,143
Infrastructure	6,973,556	-	-	6,973,556
Total Capital Assets	<u>12,230,788</u>	<u>-</u>	<u>-</u>	<u>12,230,788</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(1,001,649)	(52,163)	-	(1,053,812)
Machinery & Equipment	(574,739)	(59,447)	-	(634,186)
Vehicles	(95,659)	(2,000)	-	(97,659)
Infrastructure	(1,347,680)	(88,118)	-	(1,435,798)
Total Accumulated Depreciation	<u>(3,019,727)</u>	<u>(201,728)</u>	<u>-</u>	<u>(3,221,455)</u>
Capital Assets, Net	<u>\$ 9,211,061</u>	<u>\$ (201,728)</u>	<u>\$ -</u>	<u>\$ 9,009,333</u>

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance 12/31/2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2008</u>
<b><u>Sanitation</u></b>				
Machinery & Equipment	\$ 164,774	\$ -	\$ -	\$ 164,774
Vehicles	<u>603,040</u>	<u>-</u>	<u>-</u>	<u>603,040</u>
Total Capital Assets	<u>645,965</u>	<u>-</u>	<u>-</u>	<u>767,814</u>
Less: Accumulated Depreciation				
Machinery & Equipment	(132,584)	(13,607)	-	(146,191)
Vehicles	<u>(535,734)</u>	<u>(67,306)</u>	<u>-</u>	<u>(603,040)</u>
Total Accumulated Depreciation	<u>(565,910)</u>	<u>(80,913)</u>	<u>-</u>	<u>(749,231)</u>
Capital Assets, Net	<u>\$ 80,055</u>	<u>\$ (80,913)</u>	<u>\$ -</u>	<u>\$ 18,583</u>

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

General Government:	
Legislative and Executive	\$ 11,196
Judicial	9,926
Security of Person and Places	33,676
Transportation	104,959
Leisure Time Activities	122,873
Basic Utility	70,670
Community Environment	121,593
Unallocated Depreciation	<u>2,397</u>
Total Depreciation Expense	<u>\$ 477,290</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, 2008, 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 \$60,395. 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 \$128,078 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, 2008**

<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 12/31/2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance 12/31/2008</u>	<u>Amounts Due in One Year</u>
<b><u>Governmental Activities:</u></b>					
OWDA 1996 Sewer Construction; Matures 2014; 2.20%	236,617	-	27,362	209,255	27,967
OWDA Loan; Matures 2014; 2.20%	102,230	-	14,797	87,433	15,124
OWDA Sewer Construction and Separation; Matures 2014; 2.2%	215,343	-	31,170	184,173	32,359
OWDA WWTP Improvements; Matures 2015; 2.20%	590,520	-	73,250	517,270	78,302
OWDA Loan; Matures 2021; 4.65%	5,283,892	-	239,209	5,044,683	250,760
OPWC Loan; Matures 2015; Interest Free	216,000	-	27,000	189,000	27,000
OPWC Loan; Matures 2023; Interest Free	214,922	-	12,642	202,280	12,642
OPWC Loan; Matures 2023; Interest Free	63,030	-	3,820	59,210	3,820
Capital Improvement Bonds; Series 2005 3 to 4.80%	487,000	-	16,000	471,000	17,000
Capital Leases	12,522	63,373	36,664	39,231	22,802
Compensated Absences Payable	137,820	9,595	15,779	131,636	90,181
<b>Total Governmental Activities Debt</b>	<b><u>\$ 7,559,896</u></b>	<b><u>\$ 72,968</u></b>	<b><u>\$ 497,693</u></b>	<b><u>\$ 7,135,171</u></b>	<b><u>\$ 577,957</u></b>

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<u>Business-Type Activities:</u>	<u>Principal Balance 12/31/2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance 12/31/2008</u>	<u>Amounts Due in One Year</u>
OWDA Loan WTP Design 5.28%, Matures 1/1/2014	\$ -	\$ 158,256	\$ -	\$ 158,256	\$ 158,256
Compensated Absences Payable	59,739	3,750	6,652	56,837	37,897
<b>Total Business-Type Debt</b>	<b>\$ 59,739</b>	<b>\$ 162,006</b>	<b>\$ 6,652</b>	<b>\$ 215,093</b>	<b>\$ 196,153</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. This year the city began the design phase of a new water treatment plant. This OWDA Loan was recognized in the Water Fund as it is the intention of the City Council to financed this project from revenue of the water fund.

The annual requirements to amortize all bonded debts outstanding as of December 31, 2008, including total interest payments of \$2,255,323 are as follows:

<u>Year Ending December 31,</u>	<u>OWDA Loans</u>	<u>OPWC Loans</u>	<u>Capital Improvement Bonds</u>	<u>Total</u>
2009	\$ 824,804	\$ 43,462	\$ 37,422	\$ 905,688
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	658,192	43,462	38,679	740,333
2014-2018	2,612,819	136,312	200,450	2,949,581
2019-2023	2,166,296	82,315	211,673	2,460,284
2024-2025	-	14,553	87,952	102,505
Less: Interest Expense	(2,035,717)	-	(219,606)	(2,255,323)
<b>Total Principal</b>	<b>\$ 6,201,070</b>	<b>\$ 450,490</b>	<b>\$ 471,000</b>	<b>\$ 7,122,560</b>

**NOTE 10 -- CAPITAL LEASES**

The City has entered into a lease agreement as lessee for financing the acquisition of a police and general office copiers and police cruisers. 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 activities. The original cost of assets acquired under capital lease and included in the governmental activities was \$63,372 and the book value at December 31, 2008 was \$57,073. 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, 2008:

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2009	\$ 24,264
2010	5118
2011	5118
2012	3827
2013	3710
2014	619
Total Minimum Lease Payments	<u>42,656</u>
Less Amount Representing Interest	<u>(3,425)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 39,231</u>

**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)**

All City employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) - 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.
3. The Combined Plan (CO) - 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 provide retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. The authority to establish and amend benefits is established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 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 member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Tradition Pension Plan. The 2008 member contribution rates were 10.0% for members in state and local classifications. Public safely and law enforcement members contributed 10.1%. The 2008 employer contribution rate for local government employer units was 14.00% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2008 was 17.4%.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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The City's contributions to OPERS for all employees for the years ended December 31, 2008, 2007, and 2006, were \$370,782, \$344,197, and \$217,778, respectively; 89.1 percent has been contributed for 2008 and 100.0% has been contributed for 2007, and 2006.

**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 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, 2008, 2007, and 2006 were \$140,051, \$131,745, and \$126,872, respectively, equal to the required contributions for the year. 71.23% has been contributed for 2008 and 100 percent for 2007 and 2006. \$40,297 representing the unpaid contribution for 2008 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)**

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

OPERS provide retirement, disability, and survivor benefits as well as post-employment health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-care coverage, age and service retirees under the Traditional and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2008, the state employers contributed at a rate of 14.00% of covered payroll, local government employer units contributed 13.85 percent of covered payroll and public safety and law enforcement employer units contributed at 17.40%. The portion of employer contributions, for all employers, allocated to health care was 7.00%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-employment health care through their contributions to OPERS.

The assumptions and calculations below were based on OPERS latest actuarial review performed as of December 31, 2007. The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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exceed a 12% corridor. The investment assumption rate for 2007 was 6.50%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes the 4.00% based increase, were assumed to range from 0.50% to 6.30%. Health Care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 4.00% for the next 7 years. In subsequent year, (8 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB is advance-funded on an actuarially determined basis. The Traditional Pension and Combined Plans had 363,503 active contribution participants as of December 31, 2008. The number of active contributing participants for both plans used in the December 31, 2007, actuarial valuation was 364,076. The City's contributions for 2008 that were used to fund post-employment benefits were \$190,851. The actual contribution and the actuarially required contribution amounts are the same.

The amount of \$12.8 billion represents the actuarial value of OPERS net assets available for OPEB at December 31, 2007.

Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2007, reported the actuarially accrued liability and the unfunded actuarially accrued liability of OPEB at \$29.8 billion and \$17.0 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates 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.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

OP&F's maintains funds for health care in two separate accounts. One for health care benefits under and IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to 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, 2008, 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 is limited by the provisions of Section 115 and 401(h).

The OP&F board of trustees also is authorized to establish requirements for contributions to the healthcare 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, 2008, 2007, and 2006 were \$140,051, \$136,560 and \$126,872, respectively, of which \$47,399, \$43,647 and \$45,938, 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, 2008, consisted of the following:

<b>Fund</b>	<b>Transfers In</b>	<b>Transfers Out</b>
General	\$ -	\$ 1,103,299
Park	320,102	-
Capital Improvement Fund	1,024,277	-
Water	-	241,080
Totals	<u>\$ 1,344,379</u>	<u>\$ 1,344,379</u>

In the year ended December 31, 2008, the City made a transfer of \$241,080 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.

**CITY OF UPPER SANDUSKY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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**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, 2008, 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 described in the accompanying Schedule of Findings as item number 2008-1.

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, 2008

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

FINDING NUMBER 2008-1

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>2008</b>
<b>SPECIAL REVENUE FUND:</b>	
Transient Guest Tax Fund	\$(3,049)
<b>ENTERPRISE FUNDS:</b>	
Water Fund	(1,279,067)

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.

CITY OF UPPER SANDUSKY, OHIO  
 WYANDOT COUNTY  
 DECEMBER 31, 2008

Schedule of Prior Audit Findings

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid. Explain.
2007-1	<b>Ohio Rev. Code 5705.36</b> Actual revenues were less than budgeted revenues, reducing estimated resources below appropriations	No	Not corrected. Repeated as 2008-1.



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**