

**City of Upper Sandusky**  
**Wyandot County, Ohio**

*Audited Financial Statements*

For the Year Ended  
December 31, 2011





# Dave Yost • Auditor of State

City Council  
City of Upper Sandusky  
119 N. Seventh Street  
Upper Sandusky, Ohio 43351

We have reviewed the *Independent Auditor's Report* of the City of Upper Sandusky, Wyandot County, prepared by Rea & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

July 30, 2013

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**City of Upper Sandusky  
Wyandot County**

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June 20, 2013

To The Honorable Mayor and City Council  
City of Upper Sandusky  
119 7<sup>th</sup> Street  
Upper Sandusky, Ohio 43351

### INDEPENDENT AUDITOR'S REPORT

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Upper Sandusky's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 that our audit provides a reasonable basis for our opinions.

Because of the inadequacy of accounting records, we were unable to obtain sufficient evidence regarding the amounts at which land and construction in progress, and other capital assets, net of depreciation are recorded in the governmental activities and business-type activities in the accompanying statement of net assets at December 31, 2011 (stated at \$914,409, \$6,968,630, \$15,311,702 and \$18,403,287, respectively), and the amount of accumulated depreciation and depreciation expense recorded in the governmental activities and business-type activities for the year ended (stated at \$5,293,642, \$280,265, \$7,115,630, and \$213,264, respectively). We were also unable to obtain sufficient evidence for the amounts at which land and construction in progress, and other capital assets, net of depreciation are recorded for the water, sewer, and sanitation enterprise funds in the accompanying statement of fund net assets – proprietary funds at December 31, 2011 (stated at \$15,040,882, \$9,325,311, \$270,820, \$8,921,028, \$0, and \$156,948, respectively), and the amount of accumulated depreciation and depreciation expense recorded for the water, sewer, and sanitation enterprise funds for the year ended (stated at \$2,560,389, \$61,632, \$3,706,594, \$80,633, \$848,647, and \$70,999, respectively). In addition, we were unable to obtain sufficient evidence for the amounts recorded as Invested in Capital Assets, Net of Related Debt and Unrestricted for the governmental activities and business-type activities in the accompanying statement of net assets at December 31, 2011 (stated at \$7,838,773, (\$3,572,847), \$19,208,125, and \$1,993,577, respectively).

We were unable to satisfy ourselves regarding land and construction in progress, capital assets net of depreciation, accumulated depreciation, depreciation expense, invested in capital assets, net of related debt and unrestricted net assets reported amounts by other auditing procedures.

In our opinion, except for the effects of the matter described in the above paragraphs, the financial statements referred to previously 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, as of December 31, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2013 on our consideration of the City of Upper Sandusky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Rea & Associates, Inc.*



**CITY OF UPPER SANDUSKY  
WYANDOT COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Unaudited)**

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The discussion and analysis of City of Upper Sandusky's (the City) financial performance provides an overall view of the City's financial activities for the year ended December 31, 2011. 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 2011 are as follows:

- The City was able to increase net assets during 2011, changing \$3,064,590.
- Total Assets were \$48,087,412.
- Total Liabilities were \$21,864,498.

**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 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 the case of the City, the general fund and capital improvements funds are by far the most significant funds.

***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 2011?" 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.

**CITY OF UPPER SANDUSKY  
WYANDOT COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Unaudited)**

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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 security of persons and property, public health and welfare, transportation, community environment, basic utility services, leisure time activities, interest expense, 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.

**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 improvements 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.

**CITY OF UPPER SANDUSKY  
 WYANDOT COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2011  
 (Unaudited)**

**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 2011 and 2010:

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010 Restated	2011	2010 Restated	2011	2010 Restated
<i>Assets:</i>						
Current and Other Assets	\$ 3,753,853	\$ 2,934,099	\$ 2,735,531	\$ 1,430,210	\$ 6,489,384	\$ 4,364,309
Capital Assets, Net	7,883,039	7,677,346	33,714,989	27,440,554	41,598,028	35,117,900
<i>Total Assets</i>	11,636,892	10,611,445	36,450,520	28,870,764	48,087,412	39,482,209
<i>Liabilities:</i>						
Current and Other Liabilities	674,751	502,265	692,647	1,621,075	1,367,398	2,123,340
Long-Term Liabilities	5,940,929	6,211,780	14,556,171	7,988,756	20,497,100	14,200,536
<i>Total Liabilities</i>	6,615,680	6,714,045	15,248,818	9,609,831	21,864,498	16,323,876
<i>Net Assets:</i>						
Invested in Capital Assets, Net of Related Debt	7,838,773	7,668,343	19,208,125	19,538,280	21,285,657	21,162,756
Restricted	755,286	332,056	0	0	755,286	332,056
Unrestricted	(3,572,847)	(4,102,999)	1,993,577	(277,356)	4,181,971	1,663,512
<i>Total Net Assets</i>	<u>\$ 5,021,212</u>	<u>\$ 3,897,400</u>	<u>\$21,201,702</u>	<u>\$19,260,924</u>	<u>\$26,222,914</u>	<u>\$23,158,324</u>

Net assets and long-term obligations were restated for 2010, due to the reclassification of debt from the governmental funds to the business-type fund.

From last year, assets increased by \$8,605,203. The net assets of the City's governmental activities increased by \$1,123,812. The net assets of the City's business-type activities increased by \$1,940,778.

The increase in current and other assets can be attributed to an increase in grants for an energy conservation project and a community development block grant.

The increase in capital assets can be attributed to the construction in progress for a new water plant.

The increase in long-term liabilities can be attributed to the debt incurred for the construction of the new water plant.

Table 2 shows the changes in net assets for the year 2011 as compared to 2010.

**CITY OF UPPER SANDUSKY  
 WYANDOT COUNTY  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
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 (Unaudited)**

Table 2  
 Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<i>Revenues</i>						
<i>Program Revenues:</i>						
Charges for Services	\$ 986,052	\$ 964,364	\$ 4,541,004	\$ 3,575,409	\$ 5,527,056	\$ 4,539,773
Operating Grants	479,928	244,690	537,890	0	1,017,818	244,690
Capital Grants and Contributions	767,484	76,796	0	0	767,484	76,796
<i>General Revenues:</i>						
Property and Income Taxes	2,380,333	2,421,240	0	0	2,380,333	2,421,240
Grants and Entitlements	840,933	1,001,799	0	0	840,933	1,001,799
Investment Earnings	1,447	8,983	0	0	1,447	8,983
Other	79,213	94,463	50,091	66,908	129,304	161,371
<i>Total Revenues</i>	<u>5,535,390</u>	<u>4,812,335</u>	<u>5,128,985</u>	<u>3,642,317</u>	<u>10,664,375</u>	<u>8,454,652</u>
<i>Program Expenses:</i>						
General Government - Legislative	766,427	408,752	0	0	766,427	408,752
General Government - Judicial	752,223	722,494	0	0	752,223	722,494
Security of Persons and Property	1,992,671	1,842,624	0	0	1,992,671	1,842,624
Public Health and Welfare	37,437	37,311	0	0	37,437	37,311
Transportation	532,772	497,192	0	0	532,772	497,192
Community Environment	110,172	184,718	0	0	110,172	184,718
Basic Utilities	224,431	90,220	0	0	224,431	90,220
Leisure Time Activities	405,179	394,039	0	0	405,179	394,039
Interest and Fiscal Charges	243,388	257,947	0	0	243,388	257,947
Unallocated Depreciation	0	1,889	0	0	0	1,889
Water	0	0	1,339,256	1,273,214	1,339,256	1,273,214
Sewer	0	0	439,876	1,015,359	439,876	1,015,359
Sanitation	0	0	755,953	740,578	755,953	740,578
<i>Total Expenses</i>	<u>5,064,700</u>	<u>4,437,186</u>	<u>2,535,085</u>	<u>3,029,151</u>	<u>7,599,785</u>	<u>7,466,337</u>
Transfers	653,122	610,381	(653,122)	(610,381)	0	0
Change in Net Assets	<u>\$ 1,123,812</u>	<u>\$ 985,530</u>	<u>\$ 1,940,778</u>	<u>\$ 2,785</u>	<u>\$ 3,064,590</u>	<u>\$ 988,315</u>

The increase in capital grants and contributions can be attributed to receiving a community development block grant in 2011.

Program revenues have been reclassified to more appropriately represent the activities of the City.

***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.

**CITY OF UPPER SANDUSKY  
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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% of revenues for governmental activities in calendar year 2011.

General Government Legislative and Executive comprise 30% of governmental program expenses while the Security of Persons program was 39.3%. Interest expense was 4.8%. Interest expense was attributable to the outstanding bonds 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.

Table 3  
 Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
General Government - Legislative	\$ 766,427	\$ 408,752	\$ 634,892	\$ 307,217
General Government - Judicial	752,223	722,494	7,725	6,440
Security of Persons and Property	1,992,671	1,842,624	1,781,058	1,813,748
Public Health and Welfare	37,437	37,311	37,437	37,311
Transportation	532,772	497,192	(561,781)	175,706
Community Environment	110,172	184,718	110,172	184,718
Basic Utilities	224,431	90,220	224,431	21,920
Leisure Time Activities	405,179	394,039	353,914	344,441
Interest and Fiscal Charges	243,388	257,947	243,388	257,947
Unallocated Depreciation	0	1,889	0	1,888
<i>Total Expenses</i>	<u>\$ 5,064,700</u>	<u>\$ 4,437,186</u>	<u>\$ 2,831,236</u>	<u>\$ 3,151,336</u>

The significant change in net cost of services for transportation can be attributed to receiving grant monies in 2011, but the coordinating expenditures will be made in subsequent years.

The dependence upon tax revenues for governmental activities is apparent. Taxes and other general revenues support 89.4% of Security of Persons and Property expenses. For all governmental activities revenue support is 55.9%. The community, as a whole, is by far the primary support for the City.

**CITY OF UPPER SANDUSKY  
WYANDOT COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Unaudited)**

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***Business-Type Activities***

The City's business-type activity funds are comprised of water, sewer, and sanitation funds.

The water fund had operating and non-operating revenue of \$3,195,018 and expenses, non-operating expenses, and transfers out of \$1,821,417; the net change in fund balance was an increase of \$1,373,601. The increase is due to an increase in charges for services because of an increase in water rates in late 2010, and in increase in grant money from OPWC to help reduce the principal on an OWDA loan.

The sewer fund had operating revenue of \$1,091,845 and expenses, non-operating expenses, and transfers out of \$610,837; the net change in fund balance was an increase of \$481,008. No significant reason for this increase.

The sanitation fund had operating and non-operating revenue of \$842,122 and expenses of \$755,953; the net change in fund balance was an increase of \$86,169. No significant reason for this increase.

**The City's Funds**

Information about the City's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$6,022,202 and expenditures and other financing uses of \$6,076,734. The net change in fund balance for the year was (\$54,532). Some of the most significant changes in fund balances occurred within the City's major funds.

The general fund reported an increase in fund balance of \$36,386. Revenue remained steady in 2011 and efforts were made by the City to reduce expenditures in 2011, resulting in no significant change in the fund balance.

The capital improvements fund reported an increase in fund balance of \$66,518. There was a slight increase in expenditures due to various capital improvement projects; these expenditures were offset by loans or grant monies.

***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.

For the general fund, the original budgeted revenue and other financing sources was \$3,139,900 with final budgeted revenues being increased \$500,000. The original budgeted expenditures and other financing uses was \$3,523,806 and final budgeted expenditures changed being increased by \$43,998.

The actual expenditures and other financing uses were 7.8% more than the budgeted amount.

**CITY OF UPPER SANDUSKY  
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The City uses departmental budgeting and the budgeting systems are designed to tightly control total department budgets but provide flexibility for site management.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of the 2011 the City had \$41,598,028 invested in land, buildings, infrastructure, equipment and vehicles in governmental and business-type activities. Table 4 shows the 2011 balances compared to 2010 balances.

Table 4  
 Capital Assets at December 31,  
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 914,409	\$ 914,409	\$ 883,242	\$ 883,242	\$ 1,797,651	\$ 1,797,651
Construction in Progress	0	0	14,428,460	8,821,154	14,428,460	8,821,154
Buildings and Improvements	4,282,589	4,137,163	3,498,426	3,512,545	7,781,015	7,649,708
Machinery and Equipment	785,386	811,822	234,348	131,426	1,019,734	943,248
Vehicles	1,815,174	1,802,753	400,264	203,079	2,215,438	2,005,832
Infrastructure	85,481	11,199	14,270,249	13,889,108	14,355,730	13,900,307
<i>Total Capital Assets</i>	<u>\$ 7,883,039</u>	<u>\$ 7,677,346</u>	<u>\$33,714,989</u>	<u>\$27,440,554</u>	<u>\$41,598,028</u>	<u>\$35,117,900</u>

All capital assets were maintained throughout the year, with a few notable additions in the infrastructure (including a new water tower and construction of a new water treatment plant) of the water and sewer funds.

***Debt***

At December 31, 2011 the City had \$20,312,371 in loans and leases outstanding, \$921,638 due within one year.

Table 5 summarizes bond and notes outstanding for December 31, 2011 compared to 2010.

Table 5  
 Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 Restated	2011	2010 Restated	2011	2010 Restated
OWDA Loans Payable	\$ 4,796,049	\$ 5,227,522	\$ 14,308,886	\$ 7,919,053	\$ 19,104,935	\$ 13,146,575
OPWC Loans Payable	548,192	363,566	0	0	548,192	363,566
Capital Improvement Bond	417,000	436,000	0	0	417,000	436,000
Capital Lease Payable	44,266	9,003	197,978	0	242,244	9,003
	<u>\$ 5,805,507</u>	<u>\$ 6,036,091</u>	<u>\$ 14,506,864</u>	<u>\$ 7,919,053</u>	<u>\$ 20,312,371</u>	<u>\$ 13,955,144</u>

**CITY OF UPPER SANDUSKY  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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(Unaudited)**

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**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-2011 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 Carolyn Frederick, City Auditor, 419-294-3988, 119 N. 7<sup>th</sup> St., Upper Sandusky, Ohio 43351.



*City of Upper Sandusky, Ohio*  
*Wyandot County*  
Statement of Net Assets  
December 31, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,426,575	\$ 2,029,957	\$ 3,456,532
Receivables:			
Taxes	923,318	0	923,318
Accounts	79,787	643,518	723,305
Due From Other Governments	1,073,689	0	1,073,689
Materials and Supplies Inventory	16,092	62,056	78,148
Notes Receivable	234,392	0	234,392
Nondepreciable Capital Assets	914,409	15,311,702	16,226,111
Depreciable Capital Assets, Net	6,968,630	18,403,287	25,371,917
<i>Total Assets</i>	<u>11,636,892</u>	<u>36,450,520</u>	<u>48,087,412</u>
<b>Liabilities</b>			
Accounts Payable	107,292	114,386	221,678
Contracts Payable	137,996	537,397	675,393
Accrued Salaries, Wages and Benefits	50,540	15,599	66,139
Due to Other Governments	104,756	23,380	128,136
Deferred Revenue	265,000	0	265,000
Accrued Interest Payable	9,167	1,885	11,052
Long-Term Liabilities:			
Due Within One Year	625,616	421,787	1,047,403
Due In More Than One Year	5,315,313	14,134,384	19,449,697
<i>Total Liabilities</i>	<u>6,615,680</u>	<u>15,248,818</u>	<u>21,864,498</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	7,838,773	19,208,125	21,285,657 *
Restricted for:			
Other Purposes	21,154	0	21,154
Capital Projects	734,132	0	734,132
Unrestricted	(3,572,847)	1,993,577	4,181,971
<i>Total Net Assets</i>	<u>\$ 5,021,212</u>	<u>\$ 21,201,702</u>	<u>\$ 26,222,914</u>

\*Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the invested in capital assets, net of debt for the governmental or business-type activities, but has been reflected in the entity-wide total. See Note 10.

**City of Upper Sandusky, Ohio**  
**Wyandot County**  
Statement of Activities  
For the Year Ended December 31, 2011

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General Government:				
Legislative and Executive	\$ 766,427	\$ 131,535	\$ 0	\$ 0
Judicial	752,223	744,498	0	0
Security of Persons and Property	1,992,671	58,754	152,859	0
Public Health and Welfare	37,437	0	0	0
Transportation	532,772	0	327,069	767,484
Community Environment	110,172	0	0	0
Basic Utility Services	224,431	0	0	0
Leisure Time Activities	405,179	51,265	0	0
Debt Service:				
Interest and Fiscal Charges	243,388	0	0	0
<i>Total Governmental Activities</i>	<u>5,064,700</u>	<u>986,052</u>	<u>479,928</u>	<u>767,484</u>
<b>Business-Type Activities</b>				
Water	1,339,256	2,663,752	500,000	0
Sewer	439,876	1,074,758	0	0
Sanitation	755,953	802,494	37,890	0
<i>Total Business-Type Activities</i>	<u>2,535,085</u>	<u>4,541,004</u>	<u>537,890</u>	<u>0</u>
<i>Total primary governments</i>	<u>\$ 7,599,785</u>	<u>\$ 5,527,056</u>	<u>\$ 1,017,818</u>	<u>\$ 767,484</u>

**General Revenues**

Taxes:

Municipal Income Tax

Property Taxes, Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Interest and Investment Earnings

Miscellaneous

*Total General Revenues*

Transfers

*Change in Net Assets*

*Net Assets Beginning of Year (Restated - See Note 3)*

*Net Assets End of Year*

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (634,892)	\$ 0	\$ (634,892)
(7,725)	0	(7,725)
(1,781,058)	0	(1,781,058)
(37,437)	0	(37,437)
561,781	0	561,781
(110,172)	0	(110,172)
(224,431)	0	(224,431)
(353,914)	0	(353,914)
(243,388)	0	(243,388)
(2,831,236)	0	(2,831,236)
0	1,824,496	1,824,496
0	634,882	634,882
0	84,431	84,431
0	2,543,809	2,543,809
(2,831,236)	2,543,809	(287,427)
2,180,243	0	2,180,243
200,090	0	200,090
840,933	0	840,933
1,447	0	1,447
79,213	50,091	129,304
3,301,926	50,091	3,352,017
653,122	(653,122)	0
1,123,812	1,940,778	3,064,590
3,897,400	19,260,924	23,158,324
\$ 5,021,212	\$ 21,201,702	\$ 26,222,914

See accompanying notes to the basic financial statements.

**City of Upper Sandusky, Ohio**  
**Wyandot County**  
Balance Sheet  
Governmental Funds  
December 31, 2011

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 686,893	\$ 188,544	\$ 551,138	\$ 1,426,575
Receivables:				
Taxes	921,999	0	1,319	923,318
Accounts	59,248	0	20,539	79,787
Due From Other Governments	228,071	548,358	297,260	1,073,689
Materials and Supplies Inventory	5,924	0	10,168	16,092
Notes Receivable	0	0	234,392	234,392
<i>Total Assets</i>	<u>\$ 1,902,135</u>	<u>\$ 736,902</u>	<u>\$ 1,114,816</u>	<u>\$ 3,753,853</u>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 86,601	\$ 2,770	\$ 17,921	\$ 107,292
Contracts Payable	0	0	137,996	137,996
Accrued Salaries, Wages and Benefits	47,587	0	2,953	50,540
Due to Other Governments	95,634	0	9,122	104,756
Deferred Revenue	1,114,436	548,358	270,735	1,933,529
<i>Total Liabilities</i>	<u>1,344,258</u>	<u>551,128</u>	<u>438,727</u>	<u>2,334,113</u>
<b>Fund Balances</b>				
Nonspendable	5,924	0	10,168	16,092
Restricted	0	185,774	821,472	1,007,246
Committed	0	0	4,455	4,455
Assigned	75,731	0	0	75,731
Unassigned	476,222	0	(160,006)	316,216
<i>Total Fund Balances (Deficit)</i>	<u>557,877</u>	<u>185,774</u>	<u>676,089</u>	<u>1,419,740</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,902,135</u>	<u>\$ 736,902</u>	<u>\$ 1,114,816</u>	<u>\$ 3,753,853</u>

See accompanying notes to the basic financial statements.

*City of Upper Sandusky, Ohio*  
*Wyandot County*  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2011

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**Total Governmental Fund Balances** \$ 1,419,740

*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. 7,883,039

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

Municipal Income Taxes	\$ 643,730	
Property Taxes	8,171	
Grants	1,016,628	1,668,529

Long-term liabilities, including bonds payable, are not due and payable in the  
 current period and therefore are not reported in the funds.

Accrued Interest Payable	\$ (9,167)	
Compensated Absences Payable	(135,422)	
Loans Payable	(5,344,241)	
Bonds Payable	(417,000)	
Capital Lease Payable	(44,266)	(5,950,096)

**Net Assets of Governmental Activities** \$ 5,021,212

**City of Upper Sandusky, Ohio**  
**Wyandot County**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2011

	General	Capital Improvements	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Municipal Income Tax	\$ 2,278,883	\$ 0	\$ 0	\$ 2,278,883
Property and Other Taxes	269,213	0	18,495	287,708
Intergovernmental	632,094	219,126	344,482	1,195,702
Investment Income	1,447	0	5,442	6,889
Licenses and Permits	122,361	0	0	122,361
Fines and Forfeitures	479,507	0	261,448	740,955
Charges for Services	105,717	0	0	105,717
Other	62,357	26,078	20,860	109,295
<i>Total Revenues</i>	<u>3,951,579</u>	<u>245,204</u>	<u>650,727</u>	<u>4,847,510</u>
<b>Expenditures</b>				
Current:				
General Government				
Legislative and Executive	766,656	0	0	766,656
Judicial	578,377	0	204,636	783,013
Security of Persons and Property	1,853,416	83,360	30,007	1,966,783
Public Health and Welfare	37,437	0	0	37,437
Community Environment	61,651	0	0	61,651
Basic Utility	0	213,716	0	213,716
Leisure Time Activities	380,608	14,921	0	395,529
Transportation	0	93,394	435,524	528,918
Capital Outlay	0	191,665	137,996	329,661
Debt Service:				
Principal Retirement	4,713	515,511	0	520,224
Interest and Fiscal Charges	405	240,811	0	241,216
<i>Total Expenditures</i>	<u>3,683,263</u>	<u>1,353,378</u>	<u>808,163</u>	<u>5,844,804</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	268,316	(1,108,174)	(157,436)	(997,294)
<b>Other Financing Sources (Uses)</b>				
Proceeds of OPWC Loan	0	228,088	0	228,088
Inception of Capital Lease	0	61,552	0	61,552
Transfers In	0	885,052	0	885,052
Transfers Out	(231,930)	0	0	(231,930)
<i>Total Other Financing Sources (Uses)</i>	<u>(231,930)</u>	<u>1,174,692</u>	<u>0</u>	<u>942,762</u>
<i>Net Change in Fund Balances</i>	36,386	66,518	(157,436)	(54,532)
<i>Fund Balances, Beginning of Year (Restated-See Note 3)</i>	515,567	119,256	823,357	1,458,180
Change in Reserve for Inventory	5,924	0	10,168	16,092
<i>Fund Balances, End of Year</i>	<u>\$ 557,877</u>	<u>\$ 185,774</u>	<u>\$ 676,089</u>	<u>\$ 1,419,740</u>

See accompanying notes to the basic financial statements.

*City of Upper Sandusky, Ohio*

*Wyandot County*

Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (38,440)

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

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

Capital Asset Additions	\$ 485,958	
Depreciation	(280,265)	205,693

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

Municipal Income Taxes	(101,240)	
Property Taxes	67,937	
Grants	721,183	687,880

The issuance of long term debt provides current financial resources to the governmental funds while the repayment of principal of long term debt consumes the current financial resources, but reduces long-term liabilities in the statement of net assets.

Bond Principal	19,000	
Capital Lease	26,289	
Loan Principal	474,935	520,224

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.

(2,172)

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

Compensated Absences	40,267	
Inception of Capital Lease	(61,552)	
Proceeds from OWDA Loan	(228,088)	(249,373)

*Change in Net Assets of Governmental Activities*

\$ 1,123,812

**City of Upper Sandusky, Ohio**  
**Wyandot County**  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Municipal Income Taxes	\$ 1,846,316	\$ 2,140,325	\$ 2,281,848	\$ 141,523
Intergovernmental Revenue	512,685	594,326	633,624	39,298
Investment Income	1,171	1,357	1,447	90
Licenses and Permits	81,313	94,261	100,494	6,233
Fines and Forfeitures	410,847	476,270	507,762	31,492
Charges for Services	25,626	29,707	31,671	1,964
Property and Other Taxes	223,290	258,847	275,962	17,115
Miscellaneous	38,652	44,807	47,770	2,963
<i>Total Revenues</i>	3,139,900	3,639,900	3,880,578	240,678
<b>Expenditures</b>				
Current:				
General Government				
Legislative and Executive	665,837	683,883	724,510	(40,627)
Judicial	511,491	516,135	556,563	(40,428)
Security of Persons and Property	1,732,357	1,748,088	1,885,011	(136,923)
Public Health and Welfare	34,405	34,718	37,437	(2,719)
Community Environment	56,536	57,049	61,518	(4,469)
<i>Total Expenditures</i>	3,000,626	3,039,873	3,265,039	(225,166)
<i>Excess of Revenues Over (Under) Expenditures</i>	139,274	600,027	615,539	15,512
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(523,180)	(527,931)	(569,282)	(41,351)
<i>Total Other Financing Sources (Uses)</i>	(523,180)	(527,931)	(569,282)	(41,351)
<i>Net Change in Fund Balance</i>	(383,906)	72,096	46,257	(25,839)
<i>Fund Balance Beginning of Year</i>	551,609	551,609	551,609	0
<i>Fund Balance End of Year</i>	\$ 167,703	\$ 623,705	\$ 597,866	\$ (25,839)

See accompanying notes to the basic financial statements.



**City of Upper Sandusky, Ohio**  
**Wyandot County**  
Statement of Fund Net Assets  
Proprietary Funds  
December 31, 2011

	<u>Business-Type Activities - Enterprise Fund</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
<b>Assets</b>				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,525,599	\$ 197,602	\$ 306,756	\$ 2,029,957
Receivables:				
Accounts	380,370	150,186	112,962	643,518
Inventory of Supplies	57,097	4,959	0	62,056
<i>Total Current Assets</i>	<u>1,963,066</u>	<u>352,747</u>	<u>419,718</u>	<u>2,735,531</u>
<i>Non Current Assets:</i>				
Nondepreciable Capital Assets	15,040,882	270,820	0	15,311,702
Depreciable Capital Assets, Net of Depreciation	9,325,311	8,921,028	156,948	18,403,287
<i>Total Non Current Assets</i>	<u>24,366,193</u>	<u>9,191,848</u>	<u>156,948</u>	<u>33,714,989</u>
<i>Total Assets</i>	<u>26,329,259</u>	<u>9,544,595</u>	<u>576,666</u>	<u>36,450,520</u>
<b>Liabilities</b>				
<i>Current Liabilities</i>				
Accounts Payable	55,876	39,746	18,764	114,386
Contracts Payable	537,397	0	0	537,397
Accrued Salaries, Wages and Benefits	8,374	3,480	3,745	15,599
Due to Other Governments	12,869	5,563	4,948	23,380
Accrued Interest Payable	0	1,885	0	1,885
OWDA Loans Payable, Current Portion	289,319	30,021	0	319,340
Capital Lease Payable, Current Portion	15,893	31,786	15,893	63,572
Compensated Absences	25,155	3,328	10,392	38,875
<i>Total Current Liabilities</i>	<u>944,883</u>	<u>115,809</u>	<u>53,742</u>	<u>1,114,434</u>
<i>Long Term Liabilities</i>				
Compensated Absences	2,589	0	7,843	10,432
OWDA Loan Payable, Net of Current Portion	13,874,825	114,721	0	13,989,546
Capital Lease Payable, Net of Current Portion	33,601	67,204	33,601	134,406
<i>Total Long Term Liabilities</i>	<u>13,911,015</u>	<u>181,925</u>	<u>41,444</u>	<u>14,134,384</u>
<i>Total Liabilities</i>	<u>14,855,898</u>	<u>297,734</u>	<u>95,186</u>	<u>15,248,818</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	10,152,555	8,948,116	107,454	19,208,125 *
Unrestricted	1,320,806	298,745	374,026	1,993,577
<i>Total Net Assets</i>	<u>\$ 11,473,361</u>	<u>\$ 9,246,861</u>	<u>\$ 481,480</u>	<u>\$ 21,201,702</u>

\*Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the invested in capital assets, net of debt for the governmental or business-type activities, but has been reflected in the entity-wide total. See Note 10.

*City of Upper Sandusky, Ohio*  
*Wyandot County*  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds			Total
	Water	Sewer	Sanitation	
<b>Operating Revenues</b>				
Charges for Services	\$ 2,663,752	\$ 1,074,758	\$ 802,494	\$ 4,541,004
Other Operating Revenues	31,266	17,087	1,738	50,091
<i>Total Operating Revenues</i>	<u>2,695,018</u>	<u>1,091,845</u>	<u>804,232</u>	<u>4,591,095</u>
<b>Operating Expenses</b>				
Personal Services	632,775	302,720	332,569	1,268,064
Contractual Service	175,659	35,877	233,842	445,378
Materials and Supplies	194,712	18,761	82,298	295,771
Other Operating Expenses	5,699	0	36,245	41,944
Depreciation	61,632	80,633	70,999	213,264
<i>Total Operating Expenses</i>	<u>1,070,477</u>	<u>437,991</u>	<u>755,953</u>	<u>2,264,421</u>
<i>Operating Income (Loss)</i>	1,624,541	653,854	48,279	2,326,674
<b>Non Operating Revenues (Expenses)</b>				
Intergovernmental	500,000	0	37,890	537,890
Interest	(268,779)	(1,885)	0	(270,664)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>231,221</u>	<u>(1,885)</u>	<u>37,890</u>	<u>267,226</u>
<i>Income (Loss) Before Transfers</i>	1,855,762	651,969	86,169	2,593,900
Transfers Out	(482,161)	(170,961)	0	(653,122)
<i>Change in Net Assets</i>	1,373,601	481,008	86,169	1,940,778
<i>Net Assets at Beginning of Year (Restated-See Note 3)</i>	10,099,760	8,765,853	395,311	19,260,924
<i>Net Assets at the End of the Year</i>	<u>\$ 11,473,361</u>	<u>\$ 9,246,861</u>	<u>\$ 481,480</u>	<u>\$ 21,201,702</u>

See accompanying notes to the basic financial statements.

*City of Upper Sandusky, Ohio*  
*Wyandot County*  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds			Total
	Water	Sewer	Sanitation	
<b>Cash Flows From Operating Activities</b>				
Cash Received from Customers	\$ 2,582,334	\$ 1,050,788	\$ 801,145	\$ 4,434,267
Cash Paid for Goods and Services	(1,279,214)	(98,880)	(355,950)	(1,734,044)
Cash Paid to Employees	(642,823)	(309,674)	(335,255)	(1,287,752)
Cash Received from Other Revenue	31,266	17,087	1,738	50,091
<b>Net Cash Provided By (Used For) Operating Activities</b>	<u>691,563</u>	<u>659,321</u>	<u>111,678</u>	<u>1,462,562</u>
<b>Cash Flows From Non-Capital Financing Activities</b>				
Intergovernmental Income	500,000	0	37,890	537,890
Transfers Out	(482,161)	(170,961)	0	(653,122)
<b>Net Cash Provided By (Used For) Non-Capital Activities</b>	<u>17,839</u>	<u>(170,961)</u>	<u>37,890</u>	<u>(115,232)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of Capital Assets	(5,644,885)	(429,250)	(144,563)	(6,218,698)
Proceeds from OWDA Loans	6,700,541	131,602	0	6,832,143
Principal Payments on OWDA Loans	(438,671)	(3,639)	0	(442,310)
Principal Payments on Capital Lease	(17,756)	(35,511)	(17,756)	(71,023)
Interest Paid on Bonds, Notes, Loans	(268,779)	0	0	(268,779)
<b>Net Cash Provided By (Used For) Capital and Related Financing Activities</b>	<u>330,450</u>	<u>(336,798)</u>	<u>(162,319)</u>	<u>(168,667)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,039,852	151,562	(12,751)	1,178,663
<b>Cash and Cash Equivalents at Beginning of Year</b>	485,747	46,040	319,507	851,294
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 1,525,599</u>	<u>\$ 197,602</u>	<u>\$ 306,756</u>	<u>\$ 2,029,957</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</b>				
Operating Income (Loss)	\$ 1,624,541	\$ 653,854	\$ 48,279	\$ 2,326,674
Adjustments:				
Depreciation	61,632	80,633	70,999	213,264
(Increase) Decrease in Assets:				
Accounts Receivable	(81,418)	(23,970)	(1,349)	(106,737)
Inventory	(18,497)	(1,433)	0	(19,930)
Increase (Decrease) in Liabilities:				
Accounts Payable	(884,057)	(42,103)	(273)	(926,433)
Due to Other Governments	(590)	(706)	(3,292)	(4,588)
Accrued Salaries, Wages and Benefits	877	381	(550)	708
Compensated Absences	(10,925)	(7,335)	(2,136)	(20,396)
<b>Net Cash Provided By (Used For) Operating Activities</b>	<u>\$ 691,563</u>	<u>\$ 659,321</u>	<u>\$ 111,678</u>	<u>\$ 1,462,562</u>
<b>Non-Cash Transaction:</b>				
During fiscal year 2011, the City entered into a capital lease for equipment	\$ 67,250	\$ 134,501	\$ 67,250	\$ 269,001

See accompanying notes to the basic financial statements.

*City of Upper Sandusky, Ohio*  
*Wyandot County*  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
December 31, 2011

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**Assets**

Cash and Cash Equivalents in Segregated Accounts	\$ 53,907
<i>Total Assets</i>	<u>\$ 53,907</u>

**Liabilities**

Undistributed Monies	\$ 27,169
Payroll Withholdings	26,738
<i>Total Liabilities</i>	<u>\$ 53,907</u>

See accompanying notes to the basic financial statements.

**CITY OF UPPER SANDUSKY  
WYANDOT COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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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'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 basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America ("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. The City also applies Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to follow FASB guidance for business-type activities and enterprise funds issued after November 30, 1989. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

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Following are the most significant of the City's accounting policies.

**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.

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.

Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the invested in capital assets, net of related debt for the governmental or business-type activities but has been reflected in the entity-wide total. See Note 10.

*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.

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*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 balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Capital Improvements Fund - The Capital Improvements 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 to which the City is bound to observe constraints imposed upon the use of the resources.

*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 is charged to external users for goods or services. The City's major 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.

*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 three agency funds, Medical Reimbursements, Municipal Court and Payroll Agency Funds.

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**C. MEASUREMENT FOCUS**

*Government-Wide Financial Statements*

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

*Fund Financial Statements*

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

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

**D. BASIS OF ACCOUNTING**

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



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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: income taxes, fines and forfeitures, property taxes available as an advance and grants.

*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, 2011, but which were levied to finance 2012 operations, have been recorded as deferred revenue. 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 appropriations at this legal level of control.

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

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*Tax Budget*

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

*Estimated Resources*

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statements reflect the amounts in the first and final amended official certificate of estimated resources issued during 2011.

*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. At year-end the City did not encumber any funds because of budget constraints.

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*Lapsing of Appropriations*

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and need not be reappropriated.

**F. DEPOSITS**

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund balance integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents" on the combined balance sheet.

During 2011, investments were limited to certificates of deposit and money market accounts. 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 2011 amounted to \$1,447 which included \$742 assigned from other funds of the City.

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 and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City's treasury.

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

**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. Reporting of inventories on the accrual basis are expensed when used.

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**H. 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 \$5,000. Public domain ("infrastructure") general capital assets consisting of roads, bridges, curbs, streets, 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 other than land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives 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	Estimated Lives	
	Governmental Activities	Business-Type Activities
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	25-80 years	25-80 years

**I. INTERFUND BALANCES**

On fund financial statements, transactions representing services rendered between funds are classified as "Due to Other Funds and Due from Other Funds". 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.

**J. 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.

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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.

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

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

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

**L. FUND BALANCE**

In accordance with Governmental Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

*Nonspendable* – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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*Restricted* – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

*Committed* – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the City. Those committed amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the City.

*Unassigned* – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**M. 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.

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**N. 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, sewer, and sanitation charges for services. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenue and expenses not meeting these definitions are classified as non-operating.

**O. 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 did not receive any contributions this year.

**P. 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.

**Q. 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 2011.

**R. 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 -- IMPLEMENTATION OF NEW ACCOUNTING POLICIES**

On January 1, 2011, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 59, "*Financial Instruments Omnibus*."

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GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned.

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the City.

*Restatement of Fund Balances/Net Assets*

On January 1, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". The adjustments had the following effect on governmental modified fund balances as previously reported:

	General Fund	Other Governmental Funds
Fund Balance, December 31, 2010	\$ 447,832	\$ 891,092
Fund reclassifications	67,735	(67,735)
Restated Fund Balance, January 1, 2011	<u>\$ 515,567</u>	<u>\$ 823,357</u>

Net assets have been restated at January 1, 2011, to account for the reclassification of debt related to the sewer fund. The adjustments had the following effect on net assets as previously reported:

	Governmental Activities	Business-Type Activities
Net Assets, December 31, 2010	\$ 3,880,621	\$ 19,277,703
Due in More Than One Year	16,779	(16,779)
Restated Net Assets, January 1, 2011	<u>\$ 3,897,400</u>	<u>\$ 19,260,924</u>

	Sewer Fund
Net Assets, December 31, 2010	\$ 8,782,632
Due in More Than One Year	(16,779)
Restated Net Assets, January 1, 2011	<u>\$ 8,765,853</u>



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**NOTE 4 -- 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 is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The “statement of revenue, expenditures, and changes in fund balance - budget (non-GAAP basis) and actual” presented for the 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:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
3. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as payables (GAAP basis).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets (budget).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

Budget Basis	\$	46,257
Net adjustments for revenue accruals		19,749
Net adjustments for expenditure accruals		(37,616)
Funds budgeted elsewhere**		7,996
GAAP Basis	\$	36,386

\*\*As part of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Type Definitions, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the Park Fund.

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**NOTE 5 -- 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 (StarOhio); and

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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.
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2011, the City and public depositories complied with the provisions of these statutes.

*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 \$3,509,689 and the bank balance was \$3,688,682. Of the bank balance, \$685,124 was covered by federal depository insurance; and \$3,003,558 was exposed to custodial risk.

Custodial 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.

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**Reconciliation to Balance Sheet**

<u>Per Bank Reconciliations:</u>	
Checking Accounts	\$ 1,416,222
Money Market and Savings Accounts	2,066,729
Municipal Court Account	26,738
Petty Cash and Drawer Change	750
GAAP Basis	<u>\$ 3,510,439</u>
<u>Per Balance Sheet:</u>	
Equity in Pooled Cash and Cash Equivalents	\$ 3,456,532
Cash and Cash Equivalents in Segregated Accounts - Fiduciary Funds	53,907
GAAP Basis	<u>\$ 3,510,439</u>

**NOTE 6 -- RECEIVABLES**

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property and other taxes, due from other governments arising from entitlements, shared revenues, accounts (billings for utility service), and notes receivable. No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of the 2010 taxes.

2011 real property taxes were levied after October 1, 2011 on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

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The full tax rate for all City operations for the year ended December 31, 2011, was \$3.80 per \$1,000 of assessed valuation. The assessed values of real property upon which 2011 property tax receipts were based are as follows:

	Assessed Value
Real Property	\$ 109,921,910
Public Utilities - Real	29,380
Public Utilities - Personal	3,780,120
	\$ 113,731,410

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

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 within the County, including the City of Upper Sandusky. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility real and tangible personal property taxes, and outstanding delinquencies which became measurable as of December 31, 2011, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

Income Taxes

The City levies and collects an income tax of 1% 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% of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

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*Due From Other Governments*

A summary of due from other governments follows:

Local Government and Local Government Revenue Assistance	\$	160,224
Gasoline and Excise Tax		115,959
Motor Vehicle License Fees		36,439
Taxes (Homestead/Rollback and Tax Loss Reimbursement)		15,662
Estate Tax		52,185
Grants		693,220
Total Due From Other Governments		\$ 1,073,689

**NOTE 7 -- 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, BORMA Mutual Health Services located in Westerville, Ohio, at \$604 and \$516 for single coverage, \$966 and \$826 for two party coverage and \$1,450 and \$1,239 for family coverage. All employees paid 10.65% of the premium in 2011.

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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 \$69 and \$52 for single coverage, \$110 and \$83 per two party coverage and \$165 and \$124 for family coverage, which is withheld from their biweekly payroll.

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.

**NOTE 8 -- CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
<b>Governmental Activities</b>				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 914,409	\$ 0	\$ 0	\$ 914,409
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	5,547,745	160,007	0	5,707,752
Machinery and Equipment	2,014,012	91,815	0	2,105,827
Infrastructure	2,662,437	131,159	0	2,793,596
Vehicles	1,552,120	102,977	0	1,655,097
<i>Total Capital Assets, Being Depreciated</i>	<u>11,776,314</u>	<u>485,958</u>	<u>0</u>	<u>12,262,272</u>
<i>Accumulated Depreciation</i>				
Buildings and Improvements	(1,410,582)	(14,581)	0	(1,425,163)
Machinery and Equipment	(1,202,190)	(118,251)	0	(1,320,441)
Infrastructure	(859,684)	(118,738)	0	(978,422)
Vehicles	(1,540,921)	(28,695)	0	(1,569,616)
<i>Total Accumulated Depreciated</i>	<u>(5,013,377)</u>	<u>(280,265)</u>	<u>0</u>	<u>(5,293,642)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>6,762,937</u>	<u>205,693</u>	<u>0</u>	<u>6,968,630</u>
<i>Governmental Activities, Capital Assets, Net</i>	<u>\$ 7,677,346</u>	<u>\$ 205,693</u>	<u>\$ 0</u>	<u>\$ 7,883,039</u>

General Government:	
Legislative and Executive	\$ 7,075
Judicial	6,941
Security of Persons and Property	30,469
Transportation	119,833
Leisure Time Activities	66,455
Basic Utility	10,715
Community Environment	38,777
Total Depreciation	<u>\$ 280,265</u>

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	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
<b>Business-Type Activities</b>				
	<b>Water</b>			
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 612,422	\$ 0	\$ 0	\$ 612,422
Construction in Progress	8,821,154	5,607,306	0	14,428,460
<i>Total Capital Assets, Not Being Depreciated</i>	9,433,576	5,607,306	0	15,040,882
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	1,566,293	0	0	1,566,293
Machinery and Equipment	644,648	19,750	0	664,398
Infrastructure	9,497,725	0	0	9,497,725
Vehicles	72,205	85,079	0	157,284
<i>Total Capital Assets, Being Depreciated</i>	11,780,871	104,829	0	11,885,700
<i>Accumulated Depreciation</i>				
Buildings and Improvements	(819,424)	(9,250)	0	(828,674)
Machinery and Equipment	(546,257)	(30,630)	0	(576,887)
Infrastructure	(1,072,992)	(16,096)	0	(1,089,088)
Vehicles	(60,084)	(5,656)	0	(65,740)
<i>Total Accumulated Depreciated</i>	(2,498,757)	(61,632)	0	(2,560,389)
<i>Total Capital Assets Being Depreciated, Net</i>	9,282,114	43,197	0	9,325,311
<i>Business-Type Activities, Capital Assets, Net</i>	<u>\$ 18,715,690</u>	<u>\$ 5,650,503</u>	<u>\$ 0</u>	<u>\$ 24,366,193</u>
	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
<b>Business-Type Activities</b>				
	<b>Sewer</b>			
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 270,820	\$ 0	\$ 0	\$ 270,820
Construction in Progress	0	0	0	0
<i>Total Capital Assets, Not Being Depreciated</i>	270,820	0	0	270,820
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	3,923,814	0	0	3,923,814
Machinery and Equipment	784,455	0	0	784,455
Infrastructure	7,077,459	425,900	0	7,503,359
Vehicles	278,143	137,851	0	415,994
<i>Total Capital Assets, Being Depreciated</i>	12,063,871	563,751	0	12,627,622
<i>Accumulated Depreciation</i>				
Buildings and Improvements	(1,158,138)	(4,869)	0	(1,163,007)
Machinery and Equipment	(753,080)	(15,256)	0	(768,336)
Infrastructure	(1,613,084)	(28,663)	0	(1,641,747)
Vehicles	(101,659)	(31,845)	0	(133,504)
<i>Total Accumulated Depreciated</i>	(3,625,961)	(80,633)	0	(3,706,594)
<i>Total Capital Assets Being Depreciated, Net</i>	8,437,910	483,118	0	8,921,028
<i>Business-Type Activities, Capital Assets, Net</i>	<u>\$ 8,708,730</u>	<u>\$ 483,118</u>	<u>\$ 0</u>	<u>\$ 9,191,848</u>



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	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
<b>Business-Type Activities</b>				
	<b>Sanitation</b>			
<i>Capital Assets, Being Depreciated</i>				
Machinery and Equipment	\$ 166,618	\$ 142,888	\$ 0	\$ 309,506
Vehicles	627,164	68,925	0	696,089
<i>Total Capital Assets, Being Depreciated</i>	<u>793,782</u>	<u>211,813</u>	<u>0</u>	<u>1,005,595</u>
<i>Accumulated Depreciation</i>				
Machinery and Equipment	(164,958)	(13,830)	0	(178,788)
Vehicles	(612,690)	(57,169)	0	(669,859)
<i>Total Accumulated Depreciated</i>	<u>(777,648)</u>	<u>(70,999)</u>	<u>0</u>	<u>(848,647)</u>
<i>Business-Type Activities, Capital Assets, Net</i>	<u>\$ 16,134</u>	<u>\$ 140,814</u>	<u>\$ 0</u>	<u>\$ 156,948</u>

**NOTE 9 -- 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 30% 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, 2011, 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 \$58,964. 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 \$125,765 has been recognized. Vacation is accumulated based upon length of service as follows:

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

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

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**NOTE 10 -- LONG TERM LIABILITIES**

The City's long-term obligations at year-end and a schedule of current year activity follows:

	Restated Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011	Amount Due Within One Year
<b>Governmental Activities:</b>					
OWDA - 1995 Sewer Construction					
Matures 2014; 2.20%	\$ 119,750	\$ 0	\$ 33,284	\$ 86,466 *	\$ 34,020
OWDA - 1996 WWTP					
Matures 2015; 2.20%	366,242	0	78,591	287,651 *	79,951
OWDA - 1995 WWTP					
Matures 2014; 2.20%	56,850	0	15,801	41,049 *	16,150
OWDA - 1996 Sewer Construction					
Matures 2016; 2.20%	152,702	0	29,218	123,484 *	29,865
OWDA - 2002 Reservoir Construction					
Matures 2023; 4.65%	4,531,978	0	274,579	4,257,399 *	287,496
	<u>5,227,522</u>	<u>0</u>	<u>431,473</u>	<u>4,796,049</u>	<u>447,482</u>
OPWC - 1996 Wastewater Treatment Plant					
Matures 2016; 0.00%	135,000	0	27,000	108,000 *	27,000
OPWC - 2004 Rock Run Road Improvements					
Matures 2024; 0.00%	51,570	0	3,820	47,750 *	3,820
OPWC - 2005 CSO Removal					
Matures 2025; 0.00%	176,996	0	12,642	164,354 *	12,642
OPWC - 2011 Commerce Drive Storm Drainage					
Matures 2042; 0.00%	0	228,088	0	228,088 *	4,629
	<u>363,566</u>	<u>228,088</u>	<u>43,462</u>	<u>548,192</u>	<u>48,091</u>
Capital Improvement Bonds - 2005					
Matures 2025; 3.00% to 4.80%	436,000	0	19,000	417,000 *	20,000
Compensated Absences	175,689	70,614	110,881	135,422	86,890
Capital Lease	9,003	61,552	26,289	44,266	23,153
	<u>\$ 6,211,780</u>	<u>\$ 360,254</u>	<u>\$ 631,105</u>	<u>\$ 5,940,929</u>	<u>\$ 625,616</u>

\*These debt issues are recorded in governmental funds to finance assets of the business-type activities. See notation on Page 11 & 19 for a further description of the presentation on the statement of net assets.

**CITY OF UPPER SANDUSKY  
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	Restated Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011	Amount Due Within One Year
<b>Business-Type Activities:</b>					
OWDA - 2010 WTP & Storage Tower Matures 2041; 3.31%	\$ 7,902,274	\$ 6,700,541	\$ 438,671	\$ 14,164,144	\$ 289,319
OWDA - 2010 Sewer System Planning Matures 2016; 3.91%	16,779	131,602	3,639	144,742	30,021
Compensated Absences	69,703	22,306	42,702	49,307	38,875
Capital Lease	0	269,001	71,023	197,978	63,572
	<u>\$ 7,988,756</u>	<u>\$ 7,123,450</u>	<u>\$ 556,035</u>	<u>\$ 14,556,171</u>	<u>\$ 421,787</u>

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

The Ohio Water Development Authority (OWDA) loan financed the sewer construction and separation project in the amount of \$575,705. The retirement of this 2.2% interest loan will be made by the capital improvement fund. This loan is scheduled to mature on July 1, 2014.

The OWDA loan financed the wastewater treatment plant project in the amount of \$1,382,887. The retirement of this 2.2% interest loan will be made by the capital improvement fund. This loan is scheduled to mature on July 1, 2015.

The OWDA loan refinanced the wastewater treatment plant project in the amount of \$273,301. The retirement of this 2.2% interest loan will be made by the capital improvement fund. This loan is scheduled to mature on July 1, 2014.

The OWDA loan financed the sewer construction project in the amount of \$522,244. The retirement of this 2.2% interest loan will be made by the capital improvement fund. This loan is scheduled to mature on January 1, 2016.

The OWDA loan financed the reservoir construction project in the amount of \$6,234,116. The retirement of this 4.65% interest loan will be made by the capital improvement fund. This loan is scheduled to mature on July 1, 2023.

The OWDA loan financed the sewer system planning project in the amount of \$148,381. The retirement of this 3.91% interest loan will be made by the water fund. This loan is scheduled to mature on July 1, 2016.

The OWDA loan financed the new wastewater treatment and storage tower in the amount of \$16,240,446. The retirement of this 3.31% interest loan will be made by the wastewater fund. This loan is scheduled to mature on July 1, 2041.

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The Ohio Public Works Commission (OPWC) loan financed wastewater treatment plant improvements in the amount of \$540,000. The retirement of this 0.0% interest loan will be made by the capital improvement fund with bi-annual payments of \$13,500. This loan is scheduled to mature on January 1, 2016.

The OPWC loan financed Rock Run Road improvements in the amount of \$76,400. The retirement of this 0.0% interest loan will be made by the capital improvement fund with bi-annual payments of \$1,910. This loan is scheduled to mature on January 1, 2024.

The OPWC loan financed Crawford/Hicks CSO removal in the amount of \$252,849. The retirement of this 0.0% interest loan will be made by the capital improvement fund with bi-annual payments of \$6,321. This loan is scheduled to mature on January 1, 2025.

The OPWC loan financed the project entitled Commerce Drive Storm Drainage improvements in the amount of \$277,725. The retirement of this 0.0% interest loan will be made by the capital improvement fund with bi-annual payments of \$4,629. This loan is scheduled to mature on January 1, 2042. At December 31, 2011, only \$228,088 had been drawn on the loan; however, the amortization schedule had been established and agreed upon.

Capital leases for governmental activities will be paid from the general fund and the capital improvement fund; the business-type activities will be paid from the corresponding water, sewer, and sanitation funds. Compensated absences will be paid from the funds which the employee's salaries are paid, typically the general fund.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2011 are as follows:

Fiscal Year Ending December 31,	Governmental Activities							
	OWDA Loans		OPWC Loans		Capital Improvement Bond		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 447,482	\$ 205,641	\$ 48,091	\$ 0	\$ 20,000	\$ 18,449	\$ 515,573	\$ 224,090
2013	464,542	188,579	52,721	0	21,000	17,679	538,263	206,258
2014	455,972	170,799	52,721	0	22,000	16,850	530,693	187,649
2015	404,352	153,147	52,721	0	24,000	15,959	481,073	169,106
2016	345,530	136,631	25,720	0	25,000	14,963	396,250	151,594
2017-2021	1,987,298	423,506	128,605	0	150,000	57,297	2,265,903	480,803
2022-2026	690,873	32,372	93,769	0	155,000	19,006	939,642	51,378
2027-2031	0	0	46,290	0	0	0	46,290	0
2032-2036	0	0	46,290	0	0	0	46,290	0
2037-2041	0	0	1,264	0	0	0	1,264	0
	\$ 4,796,049	\$ 1,310,675	\$ 548,192	\$ 0	\$ 417,000	\$ 160,203	\$ 5,761,241	\$ 1,470,878

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Business-Type Activities

Fiscal Year Ending December 31,	Water		Sewer	
	OWDA		OWDA	
	Principal	Interest	Principal	Interest
2012	\$ 289,319	\$ 466,459	\$ 30,021	\$ 5,369
2013	298,975	456,803	31,207	4,183
2014	308,953	446,825	32,439	2,951
2015	319,264	436,514	33,719	1,671
2016	329,919	425,859	17,356	339
2017-2021	1,822,292	1,956,598	0	0
2022-2026	2,147,361	1,631,528	0	0
2027-2031	2,530,420	1,248,470	0	0
2032-2036	2,981,809	797,081	0	0
2037-2041	3,135,832	265,168	0	0
	<u>\$ 14,164,144</u>	<u>\$ 8,131,305</u>	<u>\$ 144,742</u>	<u>\$ 14,513</u>

**NOTE 11 -- CAPITAL LEASES**

The City has entered into a lease agreement as lessee for financing the acquisition of copiers, police cruisers and equipment. 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 costs of these capital leases are included in the governmental and business-type activities. The original cost of assets acquired under capital lease and included in the governmental activities was \$82,158 and \$269,001 in the business-type activities. 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, 2011:

Fiscal Year Ending December 31,	Governmental Activities	Business-Type Activities
2012	\$ 25,404	\$ 71,024
2013	22,194	71,024
2014	0	71,018
Total Minimum Lease Payments	47,598	213,066
Less Amount Representing Interest	(3,332)	(15,088)
Present Value of Future Minimum Lease Payments	<u>\$ 44,266</u>	<u>\$ 197,978</u>

**CITY OF UPPER SANDUSKY  
WYANDOT COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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**NOTE 12 -- DEFINED BENEFIT PENSION PLANS**

*A. Ohio Public Employees Retirement System*

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or calling 614-222-5601 or 1-800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, 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 Traditional Pension Plan.

For the year ended December 31, 2011, members in state and local classifications contributed 10.0% of covered payroll while public safety and law enforcement members contributed 11.0% and 11.6%, respectively.

The City's 2011 contribution rate was 14.0%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.1% of covered payroll. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009, were \$318,367, \$254,748, and \$256,835, respectively. For 2011, 92.5% has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. There were no contributions made to the Member-Directed Plan for 2011.

**CITY OF UPPER SANDUSKY  
WYANDOT COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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*B. Ohio Police and Fire Pension Fund (OP&F)*

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers and 24.0% for firefighters. The City's contributions to OP&F for police and firefighters were \$94,319 and \$35,201 for the year ended December 31, 2011, \$83,601 and \$23,231 for the year ended December 31, 2010, and \$73,989 and \$19,668 for the year ended December 31, 2009, respectively. 86.9% for police and 79.2% for firefighters has been contributed for 2011. The full amount has been contributed for 2010 and 2009.

**NOTE 13 -- POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

*A. Ohio Public Employees Retirement System*

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

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

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or calling 614-222-5601 or 1-800-222-7377.

**CITY OF UPPER SANDUSKY  
WYANDOT COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
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Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer’s contribution OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0% of covered payroll, and public safety and law enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS’ Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011.

The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and coverage selected.

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$127,338, \$92,445 and \$109,239, respectively. For 2011, 92.5% has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

***B. Ohio Police and Fire Pension Fund (OP&F)***

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

OP&F provides access to post-retirement health care coverage for 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 Postemployment Benefit (OPEB) as described in GASB Statement 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 Chapter 742 of the Ohio Revised Code.



**CITY OF UPPER SANDUSKY  
WYANDOT COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24.0% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an 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 the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$49,934 and \$13,774 for the year ended December 31, 2011, \$127,729 and \$32,173 for the year ended December 31, 2010, and \$113,995 and \$28,498 for the year ended December 31, 2009. 86.9% has been contributed for police and 79.2% has been contributed for firefighters for 2011. The full amount has been contributed for 2010 and 2009.

**NOTE 14 -- CONTINGENT LIABILITIES**

*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.

**CITY OF UPPER SANDUSKY  
 WYANDOT COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011**

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*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 15 -- TRANSFERS**

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Fund	Transfers In	Transfers Out
General	\$ 0	\$ 231,930
Capital Improvement Fund	885,052	0
Water	0	482,161
Sewer	0	170,961
	\$ 885,052	\$ 885,052

In the year ended December 31, 2011, the City made a transfer of \$653,122 from the water and sewer funds to the capital improvements fund to subsidize, in part, the Ohio Water Development Authority (OWDA) loans debt service payments. In the past, OWDA loans were financed by city income tax. During 2011, the Upper Sandusky Municipal Court judge signed a Journal Entry and Order to transfer \$231,930 from the general fund to the capital improvement fund to assist with the storm drainage project.

**NOTE 16 -- FUND DEFICITS**

As of December 31, 2011, the following had deficit fund balances. This deficit was caused by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur.

Non-Major Special Revenue Funds:	Fund Balance
Energy Efficient Conservation Block Grant	\$ 160,006

**NOTE 17-- FUND BALANCE**

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in governmental funds.

**CITY OF UPPER SANDUSKY  
 WYANDOT COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011**

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	General Fund	Capital Improvement Funds	Other Governmental Funds	Total
Nonspendable for:				
Inventory	\$ 5,924	\$ 0	\$ 10,168	\$ 16,092
Total Nonspendable	5,924	0	10,168	16,092
Restricted for:				
Capital Projects	0	185,774	0	185,774
Indigent Drivers Fund	0	0	220,243	220,243
CDBG Revolving Loan	0	0	267,282	267,282
Special Projects	0	0	232,080	232,080
Other Purposes	0	0	101,867	101,867
Total Restricted	0	185,774	821,472	1,007,246
Committed to:				
Other Purposes	0	0	4,455	4,455
Total Committed	0	0	4,455	4,455
Assigned for:				
Other Purposes	75,731	0	0	75,731
Total Assigned	75,731	0	0	75,731
Unassigned	476,222	0	(160,006)	316,216
Total Fund Balance	\$ 557,877	\$ 185,774	\$ 676,089	\$ 1,419,740

**NOTE 18 – ACCOUNTABILITY AND COMPLIANCE**

Ohio Revised Code Section 5705.41(D)(1) prohibits the City from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. For 2011, it was noted that the City completed purchases where the purchase order was dated after the invoice as well as purchases where supporting requisitions and/or purchase orders were not generated.

At December 31, 2011, the City reported expenditures in excess of appropriations at the fund level and legal level of control contrary to Ohio Revised Code Section 5705.41(B). The City Auditor will monitor budgetary transactions to ensure expenditures are within appropriations, and purchase orders are authorized prior to obtaining goods and/or services.

**CITY OF UPPER SANDUSKY  
 WYANDOT COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011**

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**NOTE 19 -- CONSTRUCTION COMMITMENTS**

The City had the following construction commitments at December 31, 2011:

	Contract Amount	Amount Paid as of December 31, 2011	Amount Remaining on Contract
New Water Plant	\$ 11,201,417	\$ 10,663,959	\$ 537,458

**NOTE 20 -- SUBSEQUENT EVENTS**

In October 2012, the City entered into a capital lease of \$64,829 for two police cruisers. In March 2012, the City entered into a loan with OWDA in the amount of \$262,354 to finance a Long-Term Control Plan Project. In December 2012, the City authorized a loan with OWDA in the amount of \$715,000 to finance Warpole Street Waterline Replacement.

In 2013, the City received notice of approval from OPWC of \$500,000 grant assistance for the Eight Street Waterline Project.

June 20, 2013

To the Honorable Mayor and City Council  
City of Upper Sandusky  
119 7<sup>th</sup> Street  
Upper Sandusky, Ohio 43351

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

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 as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 20, 2013, in which we noted that we were unable to obtain assurance regarding land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, invested in capital assets net of related debt, and unrestricted net assets. 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 Control over Financial Reporting**

Management of the City of Upper Sandusky is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Upper Sandusky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Upper Sandusky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Upper Sandusky's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2011-01 and 2011-02 described in the accompanying Schedule of Findings to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Upper Sandusky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2011-03 and 2011-04.

We noted certain matters that we reported to management of City of Upper Sandusky in a separate letter dated June 20, 2013.

The City of Upper Sandusky's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City of Upper Sandusky's responses and, accordingly, we express no opinion on them.

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

*Rea & Associates, Inc.*

**City of Upper Sandusky**  
**Wyandot County**  
*Schedule of Findings*  
*December 31, 2011*

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d) (1) (i)	Type of Financial Statement Opinion	Qualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	Yes

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING 2011-01**  
**Material Weakness**

**Criteria:** Comprehensive records to account for capital asset balances, additions, deletions, and accumulated depreciation are necessary to support an accurate capital asset balance, accumulated depreciation, depreciation expense and book value. An annual physical inventory inspection is ideal to ensure proper reporting of additions and disposals within the comprehensive capital asset records.

**Condition:** The City did not maintain comprehensive records to account for capital asset balances, additions, deletions, and accumulated depreciation. The balance of the City’s subsidiary records and the balance per the financial statements, in net asset value, differed by more than \$20 million. The City had not performed a physical inventory inspection in 2011 to ascertain the existence and condition of its capital assets.

**Cause:** The City implemented a capital asset system in 2000. During the conversion, several asset balances and related details were not input to the system. Capital outlay expenditures are not reconciled to additions recorded to the capital asset system.

**Potential Effect:** The lack of a comprehensive capital asset accounting system and annual physical inventory inspection could result in the overstatement or understatement of capital assets, related accumulated depreciation, depreciation expense, and investment in capital assets net of related debt.

<p style="text-align: center;"><b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)</b></p>
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**Recommendation:** We recommend that management:

- A. Implement a centralized policy and comprehensive procedures with appropriate documentation forms, including a form to be completed when capital assets are deleted, which would require approval by appropriate supervisory personnel and/or City Council prior to the disposition of any capital assets. A copy of the documentation form should be routed to the City Auditor's office for input into a capital asset record by department and type of asset to permit the preparation of the financial statements. The system should also accurately reflect all current and accumulated depreciation.
- B. Perform a physical count of capital assets to obtain an accurate balance and then perform periodic physical counts at least annually.
- C. Provide training for appropriate employees to learn the proper procedures for maintaining the City's capital assets.

**Management Response:** We will adopt and implement a centralized policy and comprehensive procedures to ensure that all capital assets are accurately entered to the capital assets system. This will allow us to support the capital asset balances reported on our financial statements. We will perform a physical inventory inspection and provide training to the appropriate employees.

**FINDING 2011-02  
Material Weakness**

**Criteria:** The financial policies and procedures adopted by the City over the purchasing of goods and services include preparing a requisition for purchased goods or services which is approved by the department head; obtaining an approved purchase order at the Auditor's office indicating funds are available to cover the expenditure; ordering of goods and/or services by the department supervisor; receipting and providing evidence the goods were received in acceptable condition or services were satisfactorily rendered; and obtaining proper authorization of the invoice for payment.

**Condition:** While obtaining an understanding of the process we noted the procedures were not consistently followed by all departments. During our walkthrough procedures of the Street Department, we observed the same individual has the ability to place an order for goods, receive the purchased goods, as well as authorize the invoice for payment. Other departments may be affected by the same lack of segregation of duties.

**Cause:** The City elected a new Auditor effective January 2012. During the transition, it was evident management reduced its enforcement of its established procedures. The lack of segregation of duties kept the audit from performing tests of controls.

**Potential Effect:** The lack of segregation of duties places the City at risk for opportunity to commit fraud, misappropriation of goods or services, and the risk of misstatement of the financial statements due to error and/or fraud.



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

**Recommendation:** We recommend the City implement training to ensure all employees with purchasing powers are made aware of City policies and procedures. These employees should be provided copies of the required forms with the established procedures outline. We also recommend City management evaluate the controls in place over the ordering of goods, receipting of goods, and authorizing of invoices for payment to ensure there is proper segregation of duties and monitoring.

**Management Response:** We will review our internal control process and take additional steps to educate and inform the appropriate individuals to ensure our procedures are followed.

**FINDING 2011-03  
Material Non-compliance**

**Criteria:** Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

The following explains the main exceptions to the standard requirement stated above, which are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. “Then and Now” certificate – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.
2. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.
3. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
4. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

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

**Condition:** We noted one of twelve invoices tested was dated before the required purchase order was generated, implying that the City’s purchase order procedures are not being adhered to by the City’s staff. For five of twelve invoices tested, we noted supporting requisitions and/or purchase orders were not generated and attached.

**Cause:** There is a lack of consistent implementation of internal controls in the disbursement process.

**Potential Effect:** Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Unless the ORC exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

**Recommendation:** We recommend the City implement training to ensure all employees with purchasing powers are made aware of City policies and procedures. These employees should be provided copies of the required forms with the established procedures outline. All employees with purchasing responsibilities are to create a requisition prior to all purchases and submit the form to the City Auditor for creation of a purchase order prior to ordering of goods or services.

**Management Response:** We will review our internal control process and take additional steps to educate and inform the appropriate individuals to ensure our procedures and Ohio Revised Code are followed.

**FINDING 2011-04  
Material Non-compliance**

**Criteria:** Ohio Revised Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated. Furthermore, Ohio Revised Code 5705.38(C) requires appropriation measures be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.

**Condition:** As of December 31, 2011, expenditures plus encumbrances exceeded appropriations at the legal level of control for the following funds tested:

<u>Fund Level</u>	<u>Appropriations</u>	<u>Expenditures plus Encumbrances</u>	<u>Variance</u>
General Fund	\$ 3,567,805	\$ 3,856,314	\$ (288,509)
Street Fund	294,366	360,669	(66,303)
Park Fund	340,915	374,939	(34,024)
Capital Improvements Fund	805,951	1,301,900	(496,309)
<b><u>Legal Level</u></b>			
General Fund			
Police: Salaries & wages	\$ 817,000	\$ 833,117	\$ (16,117)
Fire: Captain wages	153,000	163,236	(10,236)
Police: Operating supplies	45,000	58,857	(13,857)
General Government: Mayor’s wages	50,000	52,690	(2,690)
Park Fund			
Park: Salaries & wages	124,000	135,203	(11,203)
Capital Improvements Fund			
Capital Projects: Police/Fire capital outlay	40,000	43,384	(3,384)
Sanitation Fund			
Sanitation: Deputy clerk salaries	33,500	33,784	(284)

<p style="text-align: center;"><b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)</b></p>
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**Cause:** There is a lack of consistent and timely review of the City’s actual expenditures in comparison to budgeted appropriations per approved Council Ordinances.

**Potential Effect:** Failure to spend within the appropriations can result in overspending of funds and negative cash balances.

**Recommendation:** We recommend the City Auditor review appropriations and expenditure periodically, and at minimum on a monthly basis, to ensure departments remain within the appropriation budgets established by Council.

**Management Response:** We will review our internal control process and implement policies and procedures to ensure compliance with Ohio Revised Code and strengthen our internal controls over spending.

**City of Upper Sandusky**  
**Wyandot County**  
*Schedule of Prior Audit Findings*  
*December 31, 2011*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain</b>
2010-01	Lack of comprehensive records to account for capital asset balances, additions, deletions, and accumulated depreciation	No	Repeated as Finding 2011-01
2010-02	Lack of policies and procedures over financial reporting	Yes	Corrected
2010-03	<b>Ohio Revised Code Section 5705.36</b> Actual revenues were less than budgeted revenues, reducing estimated resources below appropriations	Yes	Corrected
2010-04	<b>Ohio Revised Code Section 5705.41(D)(1)</b> Expenditures without certificate from fiscal officer	No	Repeated as Finding 2011-02



# Dave Yost • 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  
AUGUST 13, 2013**