

City of Upper Sandusky
Wyandot County, Ohio
Audited Financial Statements and Report Letter

December 31, 2009



Dave Yost • Auditor of State

City Council
City of Upper Sandusky
119 North 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, 2009 through December 31, 2009. 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

November 4, 2011

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CITY OF UPPER SANDUSKY

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

August 25, 2011

To The Honorable Mayor and City Council
City of Upper Sandusky
119 7th 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, 2009, 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 the 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, 2009 (stated at \$914,409, \$7,096,057, \$3,410,359, and \$16,994,732, 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 \$4,534,588, \$530,034, \$6,512,577, and \$383,898, respectively). In addition, we were unable to obtain sufficient evidence for the amounts recorded as Invested in Capital Assets, Net of Related Debt for the governmental activities and business-type activities in the accompanying statement of net assets at December 31, 2009 (stated at \$7,997,020 and \$18,471,043, respectively).

We were unable to satisfy ourselves regarding land and construction in progress, capital assets net of depreciation, accumulated depreciation, depreciation expense, and Invested in Capital Assets, Net of Related Debt reported amounts by other auditing procedures.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves about land and construction in progress and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets net of related debt, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Upper Sandusky, as of December 31, 2009, and the respective changes in financial position and the 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 August 25, 2011 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.

The Management's Discussion and Analysis on pages 3 through 8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

City of Upper Sandusky
Management's Discussion and Analysis
For the Year Ended December 31, 2009

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, 2009. 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 2009 are as follows:

- The City was able to increase net assets during 2009, changing \$440,689.
- Total Assets were \$31,785,327.
- Total Liabilities were \$9,615,318.

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 is by far the most significant fund.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

- **Governmental Activities** - Most of the City's programs and services are reported here including security of persons and property, public health and welfare, transportation, community environment, basic utility services, leisure time activities, interest expense, unallocated depreciation, legislative and executive, and judicial.
- **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The water, sewer and sanitation funds are reported as business activities.

City of Upper Sandusky
Management's Discussion and Analysis
For the Year Ended December 31, 2009

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

The City as a Whole

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2009 and 2008:

Table 1
Net Assets
(In Millions)

	Governmental Activities 2009	Restated Governmental Activities 2008	Business-Type Activities 2009	Restated Business-Type Activities 2008	2009 Total	Restated 2008 Total
Assets						
Current and Other Assets	\$ 2,293,676	\$ 2,757,645	\$ 1,076,094	\$ 895,643	\$ 3,369,770	\$ 3,653,288
Capital Assets	8,010,466	7,988,504	20,405,091	18,335,219	28,415,557	26,323,723
Total Assets	10,304,142	10,746,149	21,481,185	19,230,862	31,785,327	29,977,011
Liabilities						
Current and Other Liabilities	754,996	750,254	214,200	147,173	969,196	897,427
Long-Term Liabilities	6,654,055	7,135,171	1,992,067	215,093	8,646,122	7,350,264
Total Liabilities	7,409,051	7,885,425	2,206,267	362,266	9,615,318	8,247,691
Net Assets						
Invested in Capital Assets, Net	7,997,020	7,949,273	18,471,043	18,176,963	19,964,134	19,161,932
Restricted	205,237	100,139	-	-	205,237	100,139
Unrestricted (Deficit)	(5,307,166)	(5,188,688)	803,875	691,633	2,000,638	2,467,249
Total Net Assets	\$ 2,895,091	\$ 2,860,724	\$ 19,274,918	\$ 18,868,596	\$ 22,170,009	\$ 21,729,320

City of Upper Sandusky
Management's Discussion and Analysis
For the Year Ended December 31, 2009

From last year, assets increased by \$1,808,316. A grant for Water System Improvements contributed by the State of Ohio in the amount of \$400,000 for the new water tower and two other grants were the main reasons for the increase in assets.

The net assets of the City's governmental activities increased by only \$34,367. Again this was primarily due to the change in capital assets. The net assets of the City's business-type activities increased by \$406,322. Without the \$400,000 grant the net assets of the business-type activities would have increased \$6,322.

Table 2 shows the changes in net assets for the year 2009 as compared to 2008.

Table 2
Changes in Net Assets

	Governmental Activities 2009	Restated Governmental Activities 2008	Business-Type Activities 2009	Restated Business-Type Activities 2008	2009 Total	Restated 2008 Total
Revenue						
Program Revenues:						
Charges for Services	\$ 202,342	\$ 60,066	\$ 3,266,122	\$ 3,024,853	\$ 3,468,464	\$ 3,084,919
Operating Grants	310,164	352,570	-	-	310,164	352,570
Capital Grants and Contributions	240,324	793,501	400,000	-	640,324	793,501
General Revenue:						
Property and Income Taxes	2,121,949	2,274,247	-	-	2,121,949	2,274,247
Fines and Forfeitures	554,520	658,288	-	-	554,520	658,288
Grants and Entitlements	578,870	671,054	-	-	578,870	671,054
Licenses and Permits	56,115	87,832	-	-	56,115	87,832
Investment Earnings	17,380	44,359	2,639	6,198	20,019	50,557
Other	65,458	145,338	44,455	22,238	109,913	167,576
Transfers	447,102	241,080	(447,102)	(241,080)	-	-
Total Revenues	4,594,224	5,328,335	3,266,114	2,812,209	7,860,338	8,140,544
Program Expenses						
General Government – Legislative and Executive	504,449	649,615	-	-	504,449	649,615
General Government – Judicial	705,308	768,160	-	-	705,308	768,160
Security of Persons and Property	1,736,659	1,596,041	-	-	1,736,659	1,596,041
Public Health	41,819	42,899	-	-	41,819	42,899
Transportation	579,649	508,791	-	-	579,649	508,791
Community Environment	222,940	211,590	-	-	222,940	211,590
Basic Utility Services	76,325	72,352	-	-	76,325	72,352
Leisure Time Activities	440,864	558,276	-	-	440,864	558,276
Interest and Fiscal Charges	249,527	292,742	-	-	249,527	292,742
Unallocated Depreciation	2,317	2,399	-	-	2,317	2,399
Water	-	-	1,282,383	1,285,729	1,282,383	1,285,729
Sewer	-	-	885,841	913,436	885,841	913,436
Sanitation	-	-	691,568	736,038	691,568	736,038
Total Expenses	4,559,857	4,702,865	2,859,792	2,935,203	7,419,649	7,638,068
Change in Net Assets	\$ 34,367	\$ 625,470	\$ 406,322	\$ (122,994)	\$ 440,689	\$ 502,476

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes.

If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is still comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

A city that is dependent upon municipal income taxes and property taxes that is hampered by a lack of revenue growth must regularly return to the voters to maintain a constant level of service. Municipal income taxes and property taxes made up 46.2 percent of revenues for governmental activities in calendar year 2009.

City of Upper Sandusky
Management's Discussion and Analysis
For the Year Ended December 31, 2009

General Government Legislative and Executive comprise 11.1 percent of governmental program expenses while the Security of Persons and Property program was 38.1 percent. Interest expense was 5.5 percent. 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 2009	Restated Total Cost of Services 2008	Net Cost of Services 2009	Restated Net Cost of Services 2008
Governmental Activities:				
General Government - Legislative and Executive	\$ 504,449	\$ 649,615	\$ 504,449	\$ 649,615
General Government - Judicial	705,308	768,160	567,465	768,160
Security of Persons and Property	1,736,659	1,596,041	1,704,317	1,215,155
Public Health and Welfare	41,819	42,899	41,819	42,899
Transportation	579,649	508,791	29,161	508,791
Community Environment	222,940	211,590	222,940	211,590
Basic Utility Services	76,325	72,352	76,325	72,352
Leisure Time Activities	440,864	558,276	408,707	558,276
Interest and Fiscal Charges	249,527	292,742	249,527	(532,509)
Unallocated Depreciation	2,317	2,399	2,317	2,399
Total Expenses	\$ 4,559,857	\$ 4,702,865	\$ 3,807,027	\$ 3,496,728

The dependence upon tax revenues for governmental activities is apparent. Taxes and other general revenues support over 98.1 percent of Security of Persons and Property expenses. For all governmental activities, general revenue support is 83.5 percent. The community, as a whole, is by far the primary support for the City.

Business-Type Activities

Business-type activities include the water, sewer, and sanitation funds. These programs had revenues of \$3,313,616 and expenses of \$2,859,792 for the year 2009 and an increase of \$406,322 in net assets. To also insure that net assets are not reduced in 2010, the City increased utility rates last year and is taking steps to reduce expenses, including renegotiating vendor agreements. Business activities receive no support from tax revenues.

The City's Funds

Information about the City's major funds starts on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$5,463,777 and expenditures and other financing uses of \$5,981,829. As a whole, the City is not meeting its financial obligations with the general fund having a cash deficit of \$90,203. The net change in fund balance for the year was \$(407,188) mainly due to not receiving anticipated income taxes.

General Fund Budgeting Highlights

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

For the general fund, original budgeted revenues were \$3,745,600. The final budgeted amount was \$4,076,982. Original and final budgeted expenditures changed with final budgeted expenditures being decreased by \$394,003.

City of Upper Sandusky
Management's Discussion and Analysis
For the Year Ended December 31, 2009

The actual expenditures were 0.6 percent less than the budgeted amount. The City's ending unencumbered cash balance in the general fund was approximately \$680,000 below the final budgeted amount.

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 2009 the City had \$28,415,557 invested in land, buildings, equipment and vehicles in governmental and business-type activities. Table 4 shows the 2009 balances compared to 2008 balances.

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

	Governmental Activities 2009	Governmental Activities 2008	Business-Type Activities 2009	Business-Type Activities 2008	2009 Totals	2008 Totals
Non-Depreciable	\$ 914,409	\$ 914,409	\$ 3,410,359	\$ 1,082,188	\$ 4,324,768	\$ 1,996,597
Buildings and Improvements	5,542,833	5,524,268	5,490,107	5,490,107	11,032,940	11,014,375
Machinery and Equipment	1,890,721	1,866,622	1,593,877	1,554,612	3,484,598	3,421,234
Vehicles	1,548,339	1,538,339	977,512	933,187	2,525,851	2,471,526
Infrastructure	2,648,752	2,149,420	15,445,813	15,403,804	18,094,565	17,553,224
Total	<u>12,545,054</u>	<u>11,993,058</u>	<u>26,917,668</u>	<u>24,463,898</u>	<u>39,462,722</u>	<u>36,456,956</u>
Less: Accumulated Depreciation	<u>(4,534,588)</u>	<u>(4,004,554)</u>	<u>(6,512,577)</u>	<u>(6,128,679)</u>	<u>(11,047,165)</u>	<u>(10,133,233)</u>
Totals	<u><u>\$ 8,010,466</u></u>	<u><u>\$ 7,988,504</u></u>	<u><u>\$ 20,405,091</u></u>	<u><u>\$ 18,335,219</u></u>	<u><u>\$ 28,415,557</u></u>	<u><u>\$ 26,323,723</u></u>

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

Debt

At December 31, 2009 the City had \$8,451,423 in loans and leases outstanding, \$560,103 due within one year.

Table 5 summarizes bond and notes outstanding for December 31, 2009 compared to 2008.

Table 5
Outstanding Debt, at Year End

	Governmental Activities 2009	Governmental Activities 2008	Business-Type Activities 2009	Business-Type Activities 2008
OWDA Loans Payable	\$ 5,642,901	\$ 6,042,814	\$ 1,334,048	\$ 158,256
OPWC Loans Payable	407,028	450,490	-	-
Capital Improvement Bonds	454,000	471,000	-	-
Water System Improvement Note	-	-	600,000	-
Capital Leases Payable	<u>13,446</u>	<u>39,230</u>	<u>-</u>	<u>-</u>
Total Outstanding Debt	<u><u>\$ 6,517,375</u></u>	<u><u>\$ 7,003,534</u></u>	<u><u>\$ 1,934,048</u></u>	<u><u>\$ 158,256</u></u>

City of Upper Sandusky
Management's Discussion and Analysis
For the Year Ended December 31, 2009

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-2009 level but can provide basic services to its citizens.

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

Contacting the City's Financial Management

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

City of Upper Sandusky

Statement of Net Assets
December 31, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 491,207	\$ 577,166	\$ 1,068,373
Receivables:			
Taxes	1,046,274	-	1,046,274
Accounts	52,700	455,038	507,738
Due from Other Governments	498,258	-	498,258
Material and Supplies Inventory	55,481	43,890	99,371
Notes Receivable	149,756	-	149,756
Non-Depreciable Capital Assets	914,409	3,410,359	4,324,768
Capital Assets, Net of Depreciation	<u>7,096,057</u>	<u>16,994,732</u>	<u>24,090,789</u>
Total Assets	<u>10,304,142</u>	<u>21,481,185</u>	<u>31,785,327</u>
<u>Liabilities</u>			
Accounts Payable	304,803	126,435	431,238
Accrued Wages	88,238	54,761	142,999
Due to Other Governments	95,030	33,004	128,034
Deferred Revenue	259,641	-	259,641
Accrued Interest Payable	7,284	-	7,284
Long-Term Liabilities			
Due Within One Year	577,735	113,342	691,077
Due More Than One Year	6,076,320	1,878,725	7,955,045
Total Liabilities	<u>7,409,051</u>	<u>2,206,267</u>	<u>9,615,318</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	7,997,020	18,471,043	19,964,134 *
Restricted for:			
Other Purposes	205,237	-	205,237
Unrestricted (deficit)	(5,307,166)	803,875	2,000,638
Total Net Assets	<u>\$ 2,895,091</u>	<u>\$ 19,274,918</u>	<u>\$ 22,170,009</u>

*Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in 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 9.

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Activities
For the Year Ended December 31, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Primary Government		Total
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary government:							
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 504,449	\$ -	\$ -	\$ -	\$ (504,449)	\$ -	\$ (504,449)
Judicial	705,308	137,843	-	-	(567,465)	-	(567,465)
Security of Persons and Property	1,736,659	32,342	-	-	(1,704,317)	-	(1,704,317)
Public Health and Welfare	41,819	-	-	-	(41,819)	-	(41,819)
Transportation	579,649	-	310,164	240,324	(29,161)	-	(29,161)
Community Environment	222,940	-	-	-	(222,940)	-	(222,940)
Basic Utility Services	76,325	-	-	-	(76,325)	-	(76,325)
Leisure Time Activities	440,864	32,157	-	-	(408,707)	-	(408,707)
Interest Expense	249,527	-	-	-	(249,527)	-	(249,527)
Unallocated Depreciation	2,317	-	-	-	(2,317)	-	(2,317)
Total Governmental Activities	<u>4,559,857</u>	<u>202,342</u>	<u>310,164</u>	<u>240,324</u>	<u>(3,807,027)</u>	<u>-</u>	<u>(3,807,027)</u>
Business-Type activities:							
Water Fund	1,282,383	1,692,561	-	400,000	-	810,178	810,178
Sewer Fund	885,841	757,617	-	-	-	(128,224)	(128,224)
Sanitation Fund	691,568	815,944	-	-	-	124,376	124,376
Total Business-Type activities	<u>2,859,792</u>	<u>3,266,122</u>	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>806,330</u>	<u>806,330</u>
Total primary government	<u>\$ 7,419,649</u>	<u>\$ 3,468,464</u>	<u>\$ 310,164</u>	<u>\$ 640,324</u>	<u>(3,807,027)</u>	<u>806,330</u>	<u>(3,000,697)</u>
General revenues:							
Taxes:							
Municipal Income Tax					1,704,768	-	1,704,768
Property Taxes, Levied for General Purposes					417,181	-	417,181
Fines and Forfeitures					554,520	-	554,520
Licenses & Permits					56,115	-	56,115
Grants and Contributions Not Restricted to Specific Programs					578,870	-	578,870
Contributed Capital					-	-	-
Unrestricted Investment Earnings					17,380	2,639	20,019
Miscellaneous					65,458	44,455	109,913
Transfers					447,102	(447,102)	-
Total General Revenues					<u>3,841,394</u>	<u>(400,008)</u>	<u>3,441,386</u>
Change in Net Assets					34,367	406,322	440,689
Net Assets Beginning of the Year (Restated - Note 16)					<u>2,860,724</u>	<u>18,868,596</u>	<u>21,729,320</u>
Net Assets End of the Year					<u>\$ 2,895,091</u>	<u>\$ 19,274,918</u>	<u>\$ 22,170,009</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Balance Sheet
 Governmental Funds
 December 31, 2009

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets and Other Debits</u>				
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ -	\$ 491,207	\$ 491,207
Receivables:				
Taxes	1,046,274	-	-	1,046,274
Accounts	36,281	-	16,419	52,700
Due from Other Governments	180,465	151,203	166,590	498,258
Materials and Supplies Inventory	3,412	-	52,069	55,481
Notes Receivable	-	-	149,756	149,756
	<u>-</u>	<u>-</u>	<u>149,756</u>	<u>149,756</u>
 Total Assets	 <u>\$ 1,266,432</u>	 <u>\$ 151,203</u>	 <u>\$ 876,041</u>	 <u>\$ 2,293,676</u>
 <u>Liabilities</u>				
Accounts Payable	\$ 180,173	\$ 107,443	\$ 17,187	\$ 304,803
Accrued Wages and Benefits	73,543	-	14,695	88,238
Due to Other Governments	82,477	1,124	11,429	95,030
Deferred Revenue	1,113,316	-	138,825	1,252,141
	<u>1,113,316</u>	<u>-</u>	<u>138,825</u>	<u>1,252,141</u>
 Total Liabilities	 <u>1,449,509</u>	 <u>108,567</u>	 <u>182,136</u>	 <u>1,740,212</u>
 <u>Fund Balances</u>				
Reserved for Inventory	3,412	-	52,069	55,481
Reserved for Notes Receivable	-	-	149,756	149,756
Unreserved , Undesignated, Reported in:				
General Fund	(186,489)	-	-	(186,489)
Special Revenue Funds	-	-	492,080	492,080
Capital Projects Funds	-	42,636	-	42,636
	<u>-</u>	<u>42,636</u>	<u>-</u>	<u>42,636</u>
 Total Fund Balances	 <u>(183,077)</u>	 <u>42,636</u>	 <u>693,905</u>	 <u>553,464</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,266,432</u>	 <u>\$ 151,203</u>	 <u>\$ 876,041</u>	 <u>\$ 2,293,676</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2009

Total Governmental Fund Balances \$ 553,464

*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. 8,010,466

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

Municipal Income Taxes	\$ 585,640	
Property Taxes	122,000	
Grants	<u>284,860</u>	992,500

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

Accrued Interest Payable	\$ (7,284)	
Compensated Absences Payable	(136,680)	
Loans Payable	(5,705,194)	
Bonds Payable	(798,735)	
Capital Leases Payable	<u>(13,446)</u>	<u>(6,661,339)</u>

Net Assets of Governmental Activities		<u>\$ 2,895,091</u>
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City of Upper Sandusky

Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2009

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Municipal Income Tax	\$ 1,745,526	\$ -	\$ -	\$ 1,745,526
Property and Other Taxes	417,742	-	16,439	434,181
Intergovernmental	499,889	240,324	456,373	1,196,586
Investment Income	11,460	1,295	4,625	17,380
Licenses and Permits	56,115	-	-	56,115
Fines and Forfeitures	514,764	-	39,756	554,520
Charges for Services	32,342	-	32,157	64,499
Other	45,673	-	19,785	65,458
Total Revenue	3,323,511	241,619	569,135	4,134,265
Expenditures:				
Current:				
General Government:				
Legislative and Executive	494,098	-	-	494,098
Judicial	587,940	-	109,774	697,714
Security of Persons and Property	1,686,782	21,594	-	1,708,376
Public Health and Welfare	41,819	-	-	41,819
Transportation	-	553,911	373,545	927,456
Community Environment	59,676	21,494	24,102	105,272
Basic Utilities	-	8,029	-	8,029
Leisure Time Activities	-	7,051	347,621	354,672
Debt Service:				
Principal Retirement	25,785	460,375	-	486,160
Interest and Fiscal Charges	2,189	273,634	-	275,823
Total Expenditures	2,898,289	1,346,088	855,042	5,099,419
Excess of Revenues Over (Under) Expenditures	425,222	(1,104,469)	(285,907)	(965,154)
Other Financing Sources (Uses):				
Transfers - In	-	1,005,743	323,769	1,329,512
Transfers - Out	(832,410)	(50,000)	-	(882,410)
Total Other Sources (Uses)	(832,410)	955,743	323,769	447,102
Net Change in Fund Balance	(407,188)	(148,726)	37,862	(518,052)
Fund Balances at Beginning of Year	224,157	191,362	645,809	1,061,328
Increase (Decrease) in Reserve for Inventory	(46)	-	10,234	10,188
Fund Balances (Deficits) End of Year	\$ (183,077)	\$ 42,636	\$ 693,905	\$ 553,464

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2009

Net Change in Fund Balances-Total Governmental Funds \$ (518,052)

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

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

Capital Asset Additions	\$ 551,996	
Depreciation	<u>(530,034)</u>	21,962

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

Municipal Income Taxes	\$ (40,758)	
Property Taxes	(17,000)	
Intergovernmental Grants	70,615	12,857

Inception of Lease is a revenue in the governmental
funds, but the repayment reduces long-term
liabilities in the statement of net assets.

Principal Payments	<u>\$ 486,159</u>	486,159
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In the statement of activities, interest is accrued on
outstanding loans, whereas in governmental funds, an
interest expenditure is reported when due.

26,296

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

Decrease in Compensated Absences	\$ (5,043)	
Change in Inventory	<u>10,188</u>	<u>5,145</u>

Change in Net Assets of Governmental Activities \$ 34,367

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

For the Year Ended December 31, 2009

	Budgeted Amounts			Variance
	Original	Final	Actual	Final Budget Positive (Negative)
Revenues:				
Municipal Income Tax	\$ 2,100,000	\$ 2,197,066	\$ 1,818,502	\$ (378,564)
Intergovernmental	571,500	505,349	418,275	(87,074)
Investment Income	15,000	14,045	11,625	(2,420)
Licenses and Permits	85,500	91,194	75,482	(15,712)
Fines and Forfeitures	482,500	619,131	512,452	(106,679)
Charges for Services	19,500	39,075	32,342	(6,733)
Property and Other Taxes	360,600	462,159	382,527	(79,632)
Miscellaneous	111,000	148,963	123,296	(25,667)
Total Revenue	3,745,600	4,076,982	3,374,501	(702,481)
Expenditures:				
Current:				
General Government:				
Legislative and Executive	409,715	585,746	570,246	15,500
Judicial	953,900	617,650	599,724	17,926
Security of Persons and Property	1,682,180	1,691,880	1,713,524	(21,644)
Public Health and Welfare	46,500	46,500	41,819	4,681
Community Environment	62,380	62,380	59,430	2,950
Total Expenditures	3,154,675	3,004,156	2,984,743	19,413
Excess of Revenues Over (Under) Expenditures	590,925	1,072,826	389,758	(683,068)
Other Financing Sources (Uses):				
Transfers - Out	(1,078,000)	(834,516)	(832,410)	2,106
Total Other Sources (Uses)	(1,078,000)	(834,516)	(832,410)	2,106
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(487,075)	238,310	(442,652)	(680,962)
Fund Balances at Beginning of Year	309,511	309,511	309,511	-
Prior Year Encumbrances Appropriated	42,938	42,938	42,938	-
Fund Balances (Deficit) at End of Year	\$ (134,626)	\$ 590,759	\$ (90,203)	\$ (680,962)

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Net Assets

Proprietary Funds

For the Year Ended December 31, 2009

Business-Type Activities - Enterprise Funds

	Water Fund	Sewer Fund	Sanitation Fund	Total
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 181,355	\$ 161,250	\$ 234,561	\$ 577,166
Receivables:				
Accounts	237,741	107,744	109,553	455,038
Inventory of Supplies	37,224	6,666	-	43,890
Total Current Assets	<u>456,320</u>	<u>275,660</u>	<u>344,114</u>	<u>1,076,094</u>
Capital Assets, No Depreciation	3,139,539	270,820	-	3,410,359
Capital Assets, Net of A/D	8,392,188	8,578,269	24,275	16,994,732
Total Assets	<u>11,988,047</u>	<u>9,124,749</u>	<u>368,389</u>	<u>21,481,185</u>
Liabilities:				
Accounts Payable	93,253	21,279	11,903	126,435
Accrued Wages and Benefits	26,070	12,962	15,729	54,761
Compensated Absences Payable	23,378	4,166	10,798	38,342
Due to Other Governments	16,822	7,404	8,778	33,004
OWDA Loan Payable	75,000	-	-	75,000
Total Current Liabilities	234,523	45,811	47,208	327,542
OWDA Loan Payable	1,259,048	-	-	1,259,048
Water System Improvement Note	600,000	-	-	600,000
Compensated Absences Payable	11,915	-	7,762	19,677
Total Liabilities	<u>2,105,486</u>	<u>45,811</u>	<u>54,970</u>	<u>2,206,267</u>
Net Assets:				
Investment in Capital Assets, Net of Debt	9,597,679	8,849,089	24,275	18,471,043
Unrestricted	284,882	229,849	289,144	803,875
Total Net Assets	<u>\$ 9,882,561</u>	<u>\$ 9,078,938</u>	<u>\$ 313,419</u>	<u>\$ 19,274,918</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2009

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Totals
Operating Revenues:				
Charges for Services	\$ 1,692,561	\$ 757,617	\$ 815,944	\$ 3,266,122
Other Operating Revenues	19,566	4,494	20,395	44,455
Total Operating Revenues	<u>1,712,127</u>	<u>762,111</u>	<u>836,339</u>	<u>3,310,577</u>
Operating Expenses:				
Personal Services	699,947	318,845	412,135	1,430,927
Contractual Services	161,764	219,908	200,448	582,120
Materials and Supplies	247,001	142,930	59,322	449,253
Other Operating Expenses	10,458	1,905	1,231	13,594
Depreciation	163,213	202,253	18,432	383,898
Total Operating Expenses	<u>1,282,383</u>	<u>885,841</u>	<u>691,568</u>	<u>2,859,792</u>
Operating Income (Loss)	<u>429,744</u>	<u>(123,730)</u>	<u>144,771</u>	<u>450,785</u>
Non-Operating Revenues (Expenses):				
Interest Income	-	2,023	616	2,639
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>2,023</u>	<u>616</u>	<u>2,639</u>
Income (Loss) before contributions and transfers	429,744	(121,707)	145,387	453,424
Contributed Capital	400,000	-	-	400,000
Transfers - Out	<u>(361,621)</u>	<u>(85,481)</u>	<u>-</u>	<u>(447,102)</u>
Change in Net Assets	468,123	(207,188)	145,387	406,322
Total Net Assets at Beginning of Year (Restated - Note 16)	<u>9,414,438</u>	<u>9,286,126</u>	<u>168,032</u>	<u>18,868,596</u>
Total Net Assets at End of Year	<u>\$ 9,882,561</u>	<u>\$ 9,078,938</u>	<u>\$ 313,419</u>	<u>\$ 19,274,918</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2009

Business-Type Activities - Enterprise Fund

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 1,680,854	\$ 747,837	\$ 840,156	\$ 3,268,847
Cash Paid to Employees	(692,295)	(314,233)	(408,376)	(1,414,904)
Cash Paid to Suppliers	(437,581)	(374,175)	(265,373)	(1,077,129)
Net Cash Provided by Operating Activities	<u>550,978</u>	<u>59,429</u>	<u>166,407</u>	<u>776,814</u>
Cash flows from Investing Activities:				
Purchase of Capital Assets	(1,908,022)	(42,009)	(24,124)	(1,974,155)
Interest Income	-	2,093	616	2,709
Net Cash Used in Investing Activities	<u>(1,908,022)</u>	<u>(39,916)</u>	<u>(23,508)</u>	<u>(1,971,446)</u>
Cash flows from Capital and Related Financing Activities:				
Principal Payments	(75,000)	-	-	(75,000)
Proceeds from Water System Improvement Note	600,000	-	-	600,000
Proceeds from OWDA Loan	1,250,792	-	-	1,250,792
Interest and Fiscal Charge Payments	-	-	-	-
Transfer - Out	(361,621)	(85,481)	-	(447,102)
Net Cash Provided by (Used in) Financing Activities	<u>1,414,171</u>	<u>(85,481)</u>	<u>-</u>	<u>1,328,690</u>
Net Increase (Decrease) in Cash and Cash Equivalents	57,127	(65,968)	142,899	134,058
Cash and Cash Equivalents, Beginning of Year	124,228	227,218	91,662	443,108
Cash and Cash Equivalents, End of Year	<u>\$ 181,355</u>	<u>\$ 161,250</u>	<u>\$ 234,561</u>	<u>\$ 577,166</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	\$ 429,744	\$ (123,730)	\$ 144,771	\$ 450,785
Adjustments:				
Net Cash from Operating Activities:				
Depreciation Expense	163,213	202,253	18,432	383,898
(Increase) Decrease in Assets:				
Accounts Receivable	(31,294)	(14,274)	3,817	(41,751)
Accrued Interest Receivable	21	-	-	21
Inventory	(4,398)	(335)	-	(4,733)
Increase (Decrease) in Liabilities:				
Accounts Payable	(13,960)	(9,097)	(4,372)	(27,429)
Accrued Wages and Benefits	3,758	3,756	3,632	11,146
Compensated Absences Payable	3,628	(733)	(1,713)	1,182
Due to Other Governments	266	1,589	1,840	3,695
Total Adjustments	<u>121,234</u>	<u>183,159</u>	<u>21,636</u>	<u>326,029</u>
Net Cash Provided by Operating Activities	<u>\$ 550,978</u>	<u>\$ 59,429</u>	<u>\$ 166,407</u>	<u>\$ 776,814</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky

Statement of Fiduciary Net Assets
December 31, 2009

<u>Assets:</u>	<u>Agency</u>
Cash and Cash Equivalents:	
In Segregated Accounts	<u>\$ 63,751</u>
Total Assets	<u><u>63,751</u></u>
<u>Liabilities:</u>	
Undistributed Monies	30,481
Payroll Withholdings	<u>33,270</u>
Total Liabilities	<u><u>\$ 63,751</u></u>

See accompanying notes to the basic financial statements.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

A. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 9.

Fund Financial Statements

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

B. FUND ACCOUNTING

The City uses funds to report on financial position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

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

Governmental Funds

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

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

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

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

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 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 two agency funds, the Municipal Court and Payroll Agency Funds.

C. MEASUREMENT FOCUS

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available as an advance 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, 2009, but which were levied to finance 2010 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.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

E. BUDGET

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

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

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 2009.

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.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 2009, investments were limited to certificates of deposit, money market accounts, passbook accounts and STAROhio, the State Treasurer's investment pool. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during year 2009 amounted to \$11,460 which included \$10,255 assigned from other funds of the City.

The City has invested funds in the State Treasurer's Asset Reserve of Ohio (STAROhio) during the year 2009. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2009.

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

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

G. INVENTORIES

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

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

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2009, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

I. CAPITAL ASSETS

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$100 dollars. Public domain ("infrastructure") general capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been capitalized under requirements of the Governmental Accounting Standards Board. Improvements are capitalized and the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

J. INTERFUND BALANCES

On fund financial statements, 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.

K. COMPENSATED ABSENCES

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

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

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

M. FUND BALANCE RESERVES

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

N. NET ASSETS

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

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

O. OPERATING REVENUES AND EXPENSES

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

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

P. CONTRIBUTION OF CAPITAL

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grant or outside contributions of resources restricted to capital acquisition and construction. The City received \$400,000 contributed by the State of Ohio for a new Water Tower.

Q. INTERFUND ACTIVITY

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

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

R. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2009.

S. ESTIMATES

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

T. CHANGES IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2009, the City has implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments," GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," and GASB Statement No.56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards."

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature.

GASB Statement No. 56 incorporates into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Implementation of these GASB Statements did not affect the presentation of the financial statements of the City.

NOTE 3 -- BUDGET BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

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

Net Change in Fund Balance	
	General Fund
Budget Basis:	\$ (442,652)
Adjustments:	
Revenue Accruals:	
Accrued 2008, Received in Cash 2009	(103,286)
Accrued 2009, Not yet Received in Cash	52,296
Expenditure Accruals:	
Accrued 2009, Not yet Paid in Cash	235,036
Accrued 2008, Paid in Cash 2009	(148,582)
	<u> </u>
GAAP Basis	<u><u>\$ (407,188)</u></u>

NOTE 4 -- DEPOSITS AND INVESTMENTS

Deposits

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

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

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
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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
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 25 percent of the interim monies available for investment at any one time for a period not to exceed one hundred eighty days.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon the delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash On Hand: At year-end, \$750 was on hand throughout the City in the form of drawer change and petty cash.

Deposits: At year-end, the carrying amount of the City's deposits was \$1,036,059 and the bank balance was \$1,280,360. Of the bank balance:

**CITY OF UPPER SANDUSKY
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1. \$1,260,101 was covered by federal depository insurance;
2. \$20,259 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions.

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

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

The City had no investments at year end.

Reconciliation to Balance Sheet	
Checking Accounts	\$ 704,339
Money Market and Savings Accounts	301,239
Municipal Court Account	30,481
Petty Cash and Drawer Change	750
Total	\$ 1,036,809
Per Balance Sheet	
Equity in Pooled Cash and Investments	\$ 1,068,373
Cash in Segregated Accounts - Fiduciary Funds	63,751
Accounts Payable-Overdrawn General	(90,203)
Accounts Payable-Overdrawn Capital Improvement	(5,112)
Total	\$ 1,036,809

NOTE 5 -- RECEIVABLES

Receivables at December 31, 2009, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, accrued interest on investments, accounts (billings for utility service), and notes receivable. No allowances for doubtful accounts have been recorded because uncollectible amounts are expected to be insignificant.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2009 for real and public utility property taxes represents collections of the 2008 taxes.

2009 real property taxes are levied after October 1, 2009, on the assessed value as of January 1, 2009, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2009 real property taxes are collected in 2009 and are intended to finance 2010.

**CITY OF UPPER SANDUSKY
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Public utility real property is assessed at 35 percent of true value. 2009 public utility property taxes became a lien December 31, 2008, are levied after October 1, 2008, and are collected in 2009 with real property taxes. The full tax rate for all City operations for the year ended December 31, 2009, was \$3.80 per \$1,000 of assessed value. The assessed values of real property upon which 2009 property tax receipts were based are as follows:

Real Property - 2008 Valuation:	
Residential/Agricultural	\$ 79,452,190
Public Utilities	21,810
Commercial/Industrial	36,882,830
Total Real Property	<u>116,356,830</u>
Tangible Personal Property - 2009 Valuation:	
General	110,270
Public Utilities	3,356,140
Total Personal Property	<u>3,466,410</u>
Total Assessed Valuation	<u>\$ 119,823,240</u>

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditors periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2009 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2009 operations. The receivable is therefore offset by deferred revenue.

Income Taxes

The City levies and collects an income tax of one percent on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Local Government and Local Government	
Revenue Assistance	\$ 175,242
Gasoline and Excise Tax	128,448
Motor Vehicle License Fees	38,142
Drug Use Prevention Grant	5,223
Roadway Development Grant	151,203
Total	<u>\$ 498,258</u>

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 6 -- INSURANCE

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

Commercial Insurance

The City has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles

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

Workers Compensation

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

Risk Pool Membership

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

- Comprehensive Medical Plan
- Prescription Drug Plan

The December premiums were paid to the administrator, CoreSource located in Westerville, Ohio, at \$561 and \$480 for single coverage, \$898 and \$691 for two party coverage and \$1,347 and \$1,152 for family coverage. All employees paid 10.86% of the premium in 2009.

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 \$61 and \$48 for single coverage, \$98 and \$77 per two party coverage and \$146 and \$115 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.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 7 -- CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009:

	Balance 12/31/2008	Additions	Retirements	Balance 12/31/2009
Governmental Activities:				
Land	\$ 914,409	\$ -	\$ -	\$ 914,409
Buildings and Improvements	5,524,268	18,565	-	5,542,833
Machinery & Equipment	1,866,622	24,099	-	1,890,721
Infrastructure	2,149,420	499,332	-	2,648,752
Vehicles	1,538,339	10,000	-	1,548,339
Total Capital Assets	11,993,058	551,996	-	12,545,054
Less: Accumulated Depreciation				
Buildings and Improvements	(1,088,713)	(160,873)	-	(1,249,586)
Machinery & Equipment	(853,241)	(168,310)	-	(1,021,551)
Infrastructure	(761,980)	(46,631)	-	(808,611)
Vehicles	(1,300,620)	(154,220)	-	(1,454,840)
Total Accumulated Depreciation	(4,004,554)	(530,034)	-	(4,534,588)
Governmental Activities - Capital Assets, Net	\$ 7,988,504	\$ 21,962	\$ -	\$ 8,010,466

	Balance 12/31/2008	Additions	Retirements	Balance 12/31/2009
Business-Type Activities:				
<u>Water</u>				
Land	\$ 612,422	\$ -	\$ -	\$ 612,422
Buildings and Improvements	1,566,293	-	-	1,566,293
Machinery & Equipment	605,383	39,265	-	644,648
Vehicles	52,004	20,201	-	72,205
Infrastructure	8,430,248	-	-	8,430,248
Construction In Progress	198,946	2,328,171	-	2,527,117
Total Capital Assets	11,465,296	2,387,637	-	13,852,933
Less: Accumulated Depreciation				
Buildings and Improvements	(749,504)	(34,960)	-	(784,464)
Machinery & Equipment	(533,027)	(6,615)	-	(539,642)
Vehicles	(52,004)	(4,040)	-	(56,044)
Infrastructure	(823,458)	(117,598)	-	(941,056)
Total Accumulated Depreciation	(2,157,993)	(163,213)	-	(2,321,206)
Capital Assets, Net	\$ 9,307,303	\$ 2,224,424	\$ -	\$ 11,531,727

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Business-Type Activities:	Balance 12/31/2008	Additions	Retirements	Balance 12/31/2009
Wastewater				
Land	\$ 270,820	\$ -	\$ -	\$ 270,820
Buildings and Improvements	3,923,814	-	-	3,923,814
Machinery & Equipment	784,455	-	-	784,455
Vehicles	278,143	-	-	278,143
Infrastructure	6,973,556	42,009	-	7,015,565
Total Capital Assets	12,230,788	42,009	-	12,272,797
Less: Accumulated Depreciation				
Buildings and Improvements	(1,053,812)	(52,163)	-	(1,105,975)
Machinery & Equipment	(634,186)	(59,447)	-	(693,633)
Vehicles	(97,659)	(2,000)	-	(99,659)
Infrastructure	(1,435,798)	(88,643)	-	(1,524,441)
Total Accumulated Depreciation	(3,221,455)	(202,253)	-	(3,423,708)
Capital Assets, Net	\$ 9,009,333	\$ (160,244)	\$ -	\$ 8,849,089

Sanitation	Balance 12/31/2008	Additions	Retirements	Balance 12/31/2009
Machinery & Equipment	\$ 164,774	\$ -	\$ -	\$ 164,774
Vehicles	603,040	24,124	-	627,164
Total Capital Assets	767,814	24,124	-	791,938
Less: Accumulated Depreciation				
Machinery & Equipment	(146,191)	(13,607)	-	(159,798)
Vehicles	(603,040)	(4,825)	-	(607,865)
Total Accumulated Depreciation	(749,231)	(18,432)	-	(767,663)
Capital Assets, Net	\$ 18,583	\$ 5,692	\$ -	\$ 24,275

**CITY OF UPPER SANDUSKY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2009**

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$ 11,019
Judicial	9,777
Security of Person and Places	35,028
Transportation	156,524
Leisure Time Activities	129,405
Basic Utility	68,296
Community Environment	117,668
Unallocated Depreciation	2,317
Total Depreciation Expense	<u>\$ 530,034</u>

NOTE 8 -- COMPENSATED ABSENCES

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

Sick leave accumulates at the rate of .0575 hours of sick leave for each hour of work completed with a maximum of 80 hours per pay period. Sick leave is accumulated and may be converted into cash upon retirement with more than ten years of service at the rate of thirty percent for all employees of the police and fire department to a maximum of 600 hours and a maximum of 480 hours for all other personnel. Individuals leaving the employment of the City prior to retirement or at retirement with less than ten years of service lose their accumulated sick leave. At December 31, 2009, 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 \$63,725. 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 \$126,808 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.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 9 -- LONG TERM LIABILITIES

	<u>Balance 12/31/2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2009</u>	<u>Due in One Year</u>
<u>Governmental Activities:</u>					
OWDA 1996 Sewer Construction; * Matures 2014; 2.20%	\$ 209,255	\$ -	\$ 27,967	\$ 181,288	\$ 28,586
OWDA Loan; * Matures 2014; 2.20%	87,433	-	15,124	72,309	15,459
OWDA Sewer Construction and * Separation; Matures 2014; 2.2%	184,173	-	31,859	152,314	32,564
OWDA WWTP Improvements; * Matures 2015; 2.20%	517,270	-	74,501	442,769	80,034
OWDA Loan; Matures 2021; * 4.65%	5,044,683	-	250,462	4,794,221	262,555
OPWC Loan; Matures 2015; * Interest Free	189,000	-	27,000	162,000	27,000
OPWC Loan; Matures 2023; * Interest Free	202,280	-	12,642	189,638	12,642
OPWC Loan; Matures 2023; * Interest Free	59,210	-	3,820	55,390	3,820
Capital Improvement Bonds; Series 2005 3 to 4.80%	471,000	-	17,000	454,000	18,000
Capital Leases	39,230	-	25,784	13,446	4,443
Compensated Absences Payable	131,637	5,043	-	136,680	92,632
Total Governmental Type Activities Debt	<u>\$ 7,135,171</u>	<u>\$ 5,043</u>	<u>\$ 486,159</u>	<u>\$ 6,654,055</u>	<u>\$ 577,735</u>

* These debt issues are recorded in governmental funds to finance assets of the business-type activities. See notation on page 9 for a further description of the presentation on the statement of net assets.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Business-Type Activities:

OWDA Loan WTP Design 5.28%, Matures 1/1/2014	\$ 158,256	\$ 1,250,792	\$ 75,000	\$ 1,334,048	\$ 75,000
Water System Improvement Note Series, 2009, 4% Matures 7/29/11	-	600,000		600,000	-
Compensated Absences Payable	<u>62,641</u>	<u>-</u>	<u>4,622</u>	<u>58,019</u>	<u>38,342</u>
Total Business-Type Debt	<u>\$ 220,897</u>	<u>\$ 1,850,792</u>	<u>\$ 79,622</u>	<u>\$ 1,992,067</u>	<u>\$ 113,342</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 outstanding OWDA loans consist of loan agreements between the City and the Ohio Water Development Authority for the construction of sewer lines and a reservoir. The loans will be paid off from City income taxes. The City began the design phase of a new water treatment plant. This OWDA Loan was recognized in the Water Fund as it is the intention of the City Council to finance this project from revenue of the water fund.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2009 are as follows:

Governmental Activities

Year	OWDA		OPWC		Capital Improvement Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 419,198	\$ 238,430	\$ 43,462	\$ -	\$ 18,000	\$ 19,819	\$ 480,660	\$ 258,249
2011	435,015	222,716	43,462	-	19,000	19,162	497,477	241,878
2012	451,488	206,141	43,462	-	20,000	18,449	514,950	224,590
2013	468,648	188,983	43,462	-	21,000	17,679	533,110	206,662
2014	436,766	171,203	43,462	-	22,000	16,850	502,228	188,053
2015 - 2019	1,894,700	599,300	109,313	-	134,000	69,161	2,138,013	668,461
2020 - 2024	1,537,086	146,776	80,405	-	178,000	36,048	1,795,491	182,824
2025 - 2026	-	-	-	-	42,000	2,016	42,000	2,016
Total	<u>\$ 5,642,901</u>	<u>\$ 1,773,549</u>	<u>\$ 407,028</u>	<u>\$ -</u>	<u>\$ 454,000</u>	<u>\$ 199,184</u>	<u>\$ 6,503,929</u>	<u>\$ 1,972,733</u>

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Business-Type Activities

Year	OWDA		Water System Improvement Note		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 75,000	\$ -	\$ -	\$ 24,000	\$ 75,000	\$ 24,000
2011	75,000	-	600,000	24,000	675,000	24,000
2012	75,000	-	-	-	75,000	-
2013	75,000	-	-	-	75,000	-
2014	1,034,048	351,377	-	-	1,034,048	351,377
Total	\$ 1,334,048	\$ 351,377	\$ 600,000	\$ 48,000	\$ 1,934,048	\$ 399,377

NOTE 10 -- CAPITAL LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of a police office copiers and police cruisers. These lease agreements qualify as capital leases for accounting purposes (titles transferable at the end of the lease term) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of inception. The costs of these capital leases are included in the governmental activities. The original cost of assets acquired under capital lease and included in the governmental activities was \$63,372 and the book value at December 31, 2009 was \$38,176. 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, 2009:

Year Ending December 31	Governmental Activities
2010	\$ 5,117
2011	5,118
2012	3,828
2013	619
Total Minimum Lease Payments	14,682
Less Amount Representing Interest	(1,236)
Present Value of Future Minimum Lease Payments	<u>\$ 13,446</u>

NOTE 11 -- DEFINED BENEFIT PENSION PLANS

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

Ohio Public Employees Retirement System (OPERS)

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

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. The Traditional Pension Plan (TP) a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan (CO) - 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 Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provide retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

The authority to establish and amend benefits is established by Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Tradition Pension Plan.

The 2009 member contribution rates were 10.0% for members in state and local classifications. Public safely and law enforcement members contributed 10.1%.

The 2009 employer contribution rate for local government employer units was 14.0% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2009 was 17.63%.

The City's contributions to OPERS for all employees for the years ended December 31, 2009, 2008, and 2007, were \$256,385, \$370,782, and \$344,197, respectively.

Ohio Police and Fireman's Disability and Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City 's contributions to OP&F for the years ending December 31, 2009, 2008, and 2007 were \$93,657, \$92,913, and \$92,652, respectively, or 75% of the required contributions for 2009, 77% of the required contributions for 2008, and 73% of required contributions for 2007.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 12 -- POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Ohio Public Employees Retirement System (OPERS)

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

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

In order to qualify for post-care coverage, age and service retirees under the Traditional and Combined Plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

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

Employer contribution rates are express as a percentage of the covered payroll of active members. In 2009, the state employers and local employers contributed at a rate of 14.00% of covered payroll and public safety and law enforcement employer units contributed at 17.63%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll and public safety and law enforcement employers contributed at 17.63%. Active members do not make contributions to the OPER Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5 from April 1, through December 31, 2009. The OPERS Retirement Board is authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPERS for the years ending December 31, 2009, 2008, and 2007 were \$109,239, \$190,851, and \$128,565.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers 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 rates increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Firemen's Disability and Pension Fund

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

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

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

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

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 to contribute to the pension plan at rates expressed as percentages of the payroll for active pension plan members, currently, 19.50% and 24.00% of covered for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The board of trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2009, the employer contribution allocated to the healthcare plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Section 115 and 401(h).

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

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

The City's contributions to OP&F for the years ending December 31, 2009, 2008, and 2007 were \$142,493, \$140,051 and \$136,560, respectively, of which \$48,836, \$47,399 and \$43,647, respectively, was allocated to the healthcare plan.

NOTE 13 -- 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.

Litigation

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

NOTE 14 – TRANSFERS

Interfund transfers for the year ended December 31, 2009, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 832,410
CDBG Revolving Loan	50,000	-
Park	273,769	-
Capital Improvement Fund	1,005,743	50,000
Water	-	361,621
Sewer	-	85,481
Totals	<u>\$ 1,329,512</u>	<u>\$ 1,329,512</u>

In the year ended December 31, 2009, the City made a transfer of \$447,102 from the water and sewer funds to the capital improvements fund to subsidize, in part, the Ohio Water Development Authority (OWDA) loans found on the government-wide financial statements.

The City requested a waiver from the Ohio Department of Development to transfer CHIP program income funds in the amount of \$50,000 in the capital improvement fund to the City's Revolving Loan Fund. This City received a waiver approval from the Office of Housing and Community Partnerships in 2009 in order to transfer program income to the revolving loan fund.

**CITY OF UPPER SANDUSKY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 15 – SUBSEQUENT EVENT

In February 2010, the City entered into an agreement with the Ohio Water Development Authority to finance a new Water Treatment Plant and Storage Tower in the amount of \$16,240,446. The Ohio Water Development Authority will finance Eligible Project Costs from funds held at Huntington National Bank.

NOTE 16 – PRIOR YEAR ADJUSTMENTS

The City is a member of the Buckeye Ohio Risk Management Association self-insurance pool. In the past the City accounted for premiums in an internal service fund for claims paid to the pool which included a liability for incurred but not reported claims. It was determined that the City's internal service fund and the liability were not required as the pool was responsible for the liability. This year the internal service fund and the 2008 claims payable to the individual funds were eliminated. Favorable prior year adjustments to the 2008 net assets in the Governmental Funds financial statements in the amount of \$33,935 and 2008 net assets in the Government-Wide financial statements in the amount of \$58,482 are made below.

Each year an estimate is made of unbilled utility charges that are incurred at year end. The estimate was determined to be understated at the end of 2008 in the amount of \$199,083. A prior year adjustment is made to the 2008 net assets Business-Type Activities Enterprise Fund below.

In 2008, property taxes held at the county auditor in the amount of \$118,472 were recognized as revenue on the Government-Wide financial statements. It has been determined that these property taxes were not available and have been deferred. A prior year adjustment is made to the Governmental Activities below.

	Government-Wide Financial Statements			
	Governmental Funds	Governmental Activities	Business-Type Activities Enterprise Funds	Total
Unadjusted Net Assets, December 31, 2008	\$ 1,027,393	\$ 2,945,261	\$ 18,644,966	\$ 21,590,227
Claims Payable Eliminated	33,935	33,935	24,547	58,482
Utilities Receivable Increased	-	-	199,083	199,083
Deferred Property Tax Decreased	-	(118,472)	-	(118,472)
Adjusted Net Assets, December 31, 2008	\$ 1,061,328	\$ 2,860,724	\$ 18,868,596	\$ 21,729,320



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

August 25, 2011

To the Honorable Mayor and City Council
City of Upper Sandusky
119 7th 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 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 as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 25, 2011, in which we noted that we were unable to obtain assurance regarding land and other capital assets, net of depreciation, accumulated depreciation, depreciation expense, and invested in capital assets net of related debt. 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

In planning and performing our audit, we considered 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did identify two deficiencies in internal control over financial reporting that we consider to be material weaknesses, 2009-01 and 2009-02 as defined in the accompanying Schedule of Findings.

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 three instances of material noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2009-03, 2009-04 and 2009-05.

We noted certain matters that we reported to management of City of Upper Sandusky in a separate letter dated August 25, 2011.

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 it.

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 those specified parties.

Hea & Associates, Inc.

**CITY OF UPPER SANDUSKY
WYANDOT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009**

1. SUMMARY OF AUDITOR'S RESULTS
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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

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

**FINDING 2009-01
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 \$16 million. The City did not perform a physical inventory inspection in 2009.

Cause: The City implemented a fixed 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 fixed 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.

**CITY OF UPPER SANDUSKY
WYANDOT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009**

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

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 assets are accurately entered to the fixed assets system. This will allow us to support the asset balances reported on our financial statements. We will perform a physical inventory inspection and provided training to the appropriate employees.

**FINDING 2009-02
Material Weakness**

Criteria: Financial reporting is the responsibility of the City Auditor and City Council.

Condition: As a result of the audit procedures performed, errors were noted in the financial statements that required the recording of restatements and other audit adjustments. The restatement as of December 31, 2008 is described in Note 16 of the financial statements. The posted audit adjustments impacted components of Net Assets/Fund Balance, Taxes Receivable, Deferred Revenue, Accounts Receivable, Non-Depreciable Capital Assets, Capital Assets, Net of Depreciation, Accounts Payable, Intergovernmental Revenue, Due from Other Governments, Property and Other Taxes Revenue, Charges for Services, Miscellaneous Revenue, Capital Outlay Expense, and Transportation Expense.

Cause: There are no policies or procedures regarding the review of the financial statements and notes to the financial statements.

Potential Effect: The lack of appropriate policies and procedures with respect to the preparation, review, and approval of the financial statements can lead to materially incomplete and inaccurate financial statements and notes to the financial statements.

Recommendation: To ensure the City's financial statements and notes to the financial statements are complete and accurate, the City should adopt policies and procedures, including a final review of the statements and notes by the City Auditor and Council, to identify and correct errors and omissions. Additionally, the City Auditor should provide the GAAP converter with all pertinent information required for the GAAP conversion.

**CITY OF UPPER SANDUSKY
WYANDOT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009**

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

Management Response: Now that the City is aware of the implications of SAS 115, we will work more closely with our contracted service provider to insure that the adjustments and reclassifications identified during the current audit will not be repeated in future years. We will also review the completed GAAP financial statements to look for areas in which material adjustments may occur.

**FINDING 2009-03
Material Non-compliance**

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

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

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

<u>Fund</u>	
General	(\$112,366)
Park	(\$3,144)
Capital Improvement	(\$51,580)

Cause: Actual revenues were less than anticipated and the estimated resources were not periodically evaluated for potential amendment.

Potential Effect: By not amending its certificate of estimated resources, Council cannot make reasonable decisions regarding the monies it has available for appropriation and expenditure.

Recommendation: Management and Council should monitor its budgeted revenues versus its actual revenues throughout the year and amend its certificate of estimated resources accordingly.

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

**CITY OF UPPER SANDUSKY
WYANDOT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009**

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

**FINDING 2009-04
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.

Condition: We noted three of eight invoices tested were 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. These unauthorized expenditures are subject to City management not allowing the expenditure with City funds, in which the person requisitioning the purchases could be held personally liable for the goods or services received. Furthermore, it was noted that requisitions and/or purchase orders were not generated for all expenditures.

**CITY OF UPPER SANDUSKY
WYANDOT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009**

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

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 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: To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the City Auditor certify that funds are or will be available prior to obligation by the City.

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

**FINDING 2009-05
Material Non-compliance**

Criteria: Ohio Revised Code Section 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund has been established. A fund with a negative fund balance signifies that monies from other funds were used to meet their obligations.

Condition: A review of the City's general ledger disclosed the following fund had a significant negative cash fund balance as of December 31, 2009:

<u>Fund</u>	
General	(\$90,203)

Cause: Actual resources were less than anticipated. Council did not review statements of cash balances.

Potential Effect: Maintaining positive cash balances is not only required by statute but is a key control in the revenue and disbursement process to assure that revenue is available to pay purchase commitments from the funds intended to pay the commitment.

Recommendation: Management and Council should monitor cash balances throughout the year and ensure that contemplated expenditures will have sufficient available resources to cover obligations.

Management Response: We will monitor cash balances on at least a monthly basis at council meetings.

**CITY OF UPPER SANDUSKY
 WYANDOT COUNTY
 DECEMBER 31, 2009**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid. Explain
2008-01	Ohio Rev. Code 5705.36 Actual revenues were less than budgeted revenues, reducing estimated resources below appropriations	No	Not Corrected, Repeated as 2009-03



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
NOVEMBER 17, 2011**