



Rea & associates *a brighter way*

City of Upper Sandusky Wyandot County, Ohio

Audited Financial Statements

For the Year Ended
December 31, 2016



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Upper Sandusky, Wyandot County, prepared by Rea & Associates, Inc., for the audit period January 1, 2016 through December 31, 2016. 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

September 21, 2017

City of Upper Sandusky
Wyandot County, Ohio
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July 19, 2017

To the Honorable Mayor and City Council
City of Upper Sandusky
Wyandot County, Ohio
119 North 7th Street
Upper Sandusky, OH 43351

Independent Auditor's Report

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Upper Sandusky, Wyandot County, Ohio, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of City Contributions on pages 3-12, 65 and 66-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2017 on our consideration of the City's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

The discussion and analysis of the City of Upper Sandusky's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the 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 2016 are as follows:

- In total, net position decreased \$357,716, which represents 1 percent decrease from 2015. Net position of governmental activities decreased \$356,751. Net position of business-type activities decreased \$965.
- Total capital assets increased \$2,828,599 in 2016. Capital assets of governmental activities decreased \$849,531 and capital assets of business-type activities increased \$3,678,130.
- Outstanding debt increased from \$21,612,309 to \$23,346,449 due to new loans for the sewer separation project.

Using this Annual Financial Report

This report is designed to allow the reader to look at the financial activities of the City of Upper Sandusky as a whole and is intended to allow the reader to obtain a summary view or a more detailed view of the City's operations, as they prefer.

The Statement of Net Position and the Statement of Activities provide information from a summary perspective showing the effects of the operations for the year 2016 and how they affected the operations of the City as a whole.

Reporting the City of Upper Sandusky as a Whole

Statement of Net Position and the Statement of Activities

The *Statement of Net Position 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 nonmajor funds presented in total in one column. In the case of the City of Upper Sandusky, the general fund is by far the most significant fund. Business-type funds consist of the water, sewer and sanitation funds.

A question typically asked about the City's finances "How did we do financially during 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include *all assets and deferred outflows of resources and liabilities and deferred inflows of resources* using the *accrual basis of accounting* similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

These two statements report the City's *net position* and *changes in net position*. This change in net position 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 change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, and other factors.

In the Statement of Net Position 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 general government, security of persons and property, public health, community development, leisure time activities and transportation.
- **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 City's water, sewer and sanitation funds are reported as business activities.

Reporting the City of Upper Sandusky's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The City uses many funds to account for 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 to 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 future services. The relationship (or differences) between governmental activities (reported in the Statement of Net Position 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.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

The City of Upper Sandusky as a Whole

Recall that the Statement of Net Position provides the perspective of the City as a whole. Table 1 provides a summary of the City's net position for 2016 compared to 2015:

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and Other Assets	\$ 5,092,461	\$ 4,789,425	\$ 4,276,086	\$ 4,146,474	\$ 9,368,547	\$ 8,935,899
Net Pension Asset	0	1,459	0	840	0	2,299
Capital Assets	18,632,941	19,482,472	36,802,495	33,124,365	55,435,436	52,606,837
<i>Total Assets</i>	<u>23,725,402</u>	<u>24,273,356</u>	<u>41,078,581</u>	<u>37,271,679</u>	<u>64,803,983</u>	<u>61,545,035</u>
Deferred Outflows of Resources						
Pension	1,899,580	490,314	517,306	137,775	2,416,886	628,089
<i>Total Deferred Outflows of Resources</i>	<u>1,899,580</u>	<u>490,314</u>	<u>517,306</u>	<u>137,775</u>	<u>2,416,886</u>	<u>628,089</u>
Liabilities						
Current and Other Liabilities	379,663	364,664	1,642,302	309,627	2,021,965	674,291
Long-Term Liabilities:						
Due within One Year	628,945	661,506	528,711	558,731	1,157,656	1,220,237
Due in More Than One Year:						
Net Pension Liability	5,043,435	3,356,006	1,295,857	758,168	6,339,292	4,114,174
Other Amounts	3,322,017	3,840,543	19,147,701	16,812,106	22,469,718	20,652,649
<i>Total Liabilities</i>	<u>9,374,060</u>	<u>8,222,719</u>	<u>22,614,571</u>	<u>18,438,632</u>	<u>31,988,631</u>	<u>26,661,351</u>
Deferred Inflows of Resources						
Property Taxes	271,000	279,000	0	0	271,000	279,000
Revenue in Lieu of Taxes	55,000	0	0	0	55,000	0
Pension	43,303	23,581	25,036	13,577	68,339	37,158
<i>Total Deferred Inflows of Resources</i>	<u>369,303</u>	<u>302,581</u>	<u>25,036</u>	<u>13,577</u>	<u>394,339</u>	<u>316,158</u>
Net Position						
Net Investment in Capital Assets	18,221,610	18,897,795	15,727,463	15,818,279	30,613,713	30,971,985 *
Restricted	1,636,988	1,572,849	0	0	1,636,988	1,572,849
Unrestricted	(3,976,979)	(4,232,274)	3,228,817	3,138,966	2,587,198	2,650,781
<i>Total Net Position</i>	<u>\$ 15,881,619</u>	<u>\$ 16,238,370</u>	<u>\$ 18,956,280</u>	<u>\$ 18,957,245</u>	<u>\$ 34,837,899</u>	<u>\$ 35,195,615</u>

*Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the net investment in capital assets for the governmental or business-type activities, but has been reflected in the entity-wide total. See Note 9.

City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

Under the standards required by GASB 68, the net pension asset/liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension asset/liability not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

At year end, capital assets represented 86 percent of total assets. Capital assets include land, buildings and improvements, machinery and equipment, infrastructure, vehicles and construction in progress. Net investment in capital assets for governmental activities was \$18,221,610, and \$15,727,463 in business-type activities. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

Governmental Activities

A portion of the City's net position of governmental activities, \$1,636,988 or 10 percent, represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position of the governmental activities \$(3,976,979) was caused by reporting the net pension liability.

The City's cash increased in the amount of \$479,584 during 2016. The majority of this increase can be attributed to an increase in fines collected by the court. The remainder of the increase can be attributed to a change in how income taxes are collected and the change to the self-insurance fund which in prior years carried a zero balance. Employers are now required to report and pay employee deduction income tax on a monthly basis causing 2016 fourth quarter taxes normally collected in 2017 to be reported in 2016.

The \$1,409,266 increase in deferred outflows of resources can be attributed to an increase in GASB 68 net pension liability.

Long-term liabilities increased \$1,136,342 due to an increase in GASB 68 net pension liability, which was partially offset by principal payments made by the City during 2016.

Business-Type Activities

Capital assets increased \$3,678,130 due to current year acquisitions exceeding disposals and depreciation expense. This increase was primarily due to a large sewer separation project that began in 2015 and continued through 2016. As of December 31, 2016, this project is reported as construction in progress in the amount of \$4.8 million. Current liabilities increased \$1,332,675 in 2016 due to contracts payable for the sewer separation project.

Long-term liabilities increased \$2,843,264 due to increases in the GASB 68 net pension liability and new OWDA and OPWC loans for the sewer separation project.

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City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 1,365,128	\$ 1,169,263	\$ 5,101,306	\$ 4,979,118	\$ 6,466,434	\$ 6,148,381
Operating Grants	373,764	397,008	29,719	40,225	403,483	437,233
Capital Grants	15,996	292,552	328,113	0	344,109	292,552
<i>General Revenues:</i>						
Property and Other Local Taxes	305,455	286,473	0	0	305,455	286,473
Income Taxes	3,289,750	3,316,123	0	0	3,289,750	3,316,123
Grants and Entitlements	265,269	306,869	0	0	265,269	306,869
Revenue in Lieu of Taxes	48,885	0	0	0	48,885	0
Investment Earnings	11,119	5,956	0	0	11,119	5,956
Other	59,174	40,573	75,122	72,858	134,296	113,431
<i>Total Revenues</i>	<u>5,734,540</u>	<u>5,814,817</u>	<u>5,534,260</u>	<u>5,092,201</u>	<u>11,268,800</u>	<u>10,907,018</u>
Program Expenses						
General Government	1,848,724	1,792,676	0	0	1,848,724	1,792,676
Security of Persons and Property	2,518,660	2,243,899	0	0	2,518,660	2,243,899
Public Health	31,670	28,916	0	0	31,670	28,916
Leisure Time Services	644,168	570,993	0	0	644,168	570,993
Community Development	116,534	87,444	0	0	116,534	87,444
Basic Utility Service	262,076	200,001	0	0	262,076	200,001
Transportation	1,015,540	1,288,907	0	0	1,015,540	1,288,907
Interest and Fiscal Charges	141,846	186,732	0	0	141,846	186,732
<i>Enterprise Operations:</i>						
Water	0	0	2,840,687	2,648,025	2,840,687	2,648,025
Sewer	0	0	1,416,789	1,196,989	1,416,789	1,196,989
Sanitation	0	0	789,822	723,964	789,822	723,964
<i>Total Program Expenses</i>	<u>6,579,218</u>	<u>6,399,568</u>	<u>5,047,298</u>	<u>4,568,978</u>	<u>11,626,516</u>	<u>10,968,546</u>
Transfers	487,927	592,734	(487,927)	(592,734)	0	0
<i>Change in Net Position</i>	(356,751)	7,983	(965)	(69,511)	(357,716)	(61,528)
<i>Net Position Beginning of Year</i>	<u>16,238,370</u>	<u>16,230,387</u>	<u>18,957,245</u>	<u>19,026,756</u>	<u>35,195,615</u>	<u>35,257,143</u>
<i>Net Position End of Year</i>	<u>\$ 15,881,619</u>	<u>\$ 16,238,370</u>	<u>\$ 18,956,280</u>	<u>\$ 18,957,245</u>	<u>\$ 34,837,899</u>	<u>\$ 35,195,615</u>

City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
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(Unaudited)

Governmental Activities

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

If three years later the home was 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 0.5 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 62 percent of revenues for governmental activities in calendar year 2016.

The decrease in revenues from capital grants can be attributed to an OPWC grant received in 2015 and not in 2016.

The increase in expenses for security of persons and property is mainly due to an increase of \$304,907 in net pension liability associated with GASB 68 for 2016.

General Government comprises 28 percent of governmental program expenses while the Security of Persons program was 38 percent. Interest expense was 2 percent. Interest expense was attributable to the outstanding bonds and borrowing for capital projects.

Business-Type Activities

Business-type activities include water, sewer and sanitation operations. The revenues are generated primarily from charges for services. In 2016, charges for services of \$5,101,306 accounted for 92 percent, and miscellaneous revenue of \$72,735 accounted for 1 percent of the business type revenues. The total expenses and transfers out were \$5,535,225, thus leaving a decrease in net position of \$965 for the business-type activities. The increase in revenues for the business type activities can be attributed to capital grants for the sewer separation project.

The City's Funds

Governmental Funds

Information about the City's governmental funds begins on page 15. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$5,655,756 and expenditures of \$6,056,823. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

The general fund's net change in fund balance for fiscal year 2016 was an increase of \$108,684. There was no significant reason for this increase.

City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

The fund balance of the capital improvement fund decreased \$76,578. The decrease is primarily due to timing differences of income tax revenues and transfers in and decreased intergovernmental revenue versus expenditures for capital projects throughout the City.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for the business-type activities, but in more detail.

Unrestricted net position of the water fund at the end of the year amounted to \$1,554,824, the unrestricted net position of the sewer fund was \$1,127,478, and the unrestricted net position of the sanitation fund was \$546,515. The total change in net position for these funds was \$(424,192), \$391,643, and \$31,584, respectively. The decrease in the water is due to transfers out to the capital improvement fund to repay debt payments. The increase in the sewer fund is due to an increase in capital contributions from grants partially funding the sewer separation project.

General Fund Budgeting Highlights

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

During the course of 2016, the City amended its general fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, the actual budget basis revenue was \$4,043,766, which was \$300,766 higher than the final budget estimate of \$3,743,000, as income taxes and fines and forfeitures were underestimated. Final budget basis revenue was increased \$280,000 from the original budget basis of \$3,463,000, due to income taxes being higher than originally anticipated.

Final expenditure appropriations of \$4,265,100 were \$283,035 higher than actual expenditures of \$3,982,065, as cost savings were recognized in the areas of general government and security of person and property.

There were no significant variances to discuss within other financing sources and uses.

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City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of year 2016, the City had \$55,435,436 invested in capital assets. A total of \$18,632,941 of this was for governmental activities and \$36,802,495 being attributable to business-type activities. Table 3 shows fiscal year 2016 balances compared with 2015.

Table 3
Capital Assets at December 31, 2016
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 788,900	\$ 788,900	\$ 0	\$ 0	\$ 788,900	\$ 788,900
Infrastructure	14,837,923	15,297,609	14,872,671	15,375,602	29,710,594	30,673,211
Buildings and Improvements	1,844,688	2,016,535	16,033,613	16,541,492	17,878,301	18,558,027
Machinery and Equipment	601,441	613,630	364,876	348,667	966,317	962,297
Vehicles	559,989	729,973	447,205	255,133	1,007,194	985,106
Construction in Progress	0	35,825	5,084,130	603,471	5,084,130	639,296
Total	\$ 18,632,941	\$ 19,482,472	\$ 36,802,495	\$ 33,124,365	\$ 55,435,436	\$ 52,606,837

The \$849,531 decrease in capital assets of governmental activities was attributable to current year depreciation exceeding additional purchases. The \$3,678,130 increase in capital assets of business-type activities is attributable to new vehicle purchases and increases in construction in progress in the sewer fund. See Note 7 for additional information about the capital assets of the City.

Debt

The outstanding debt for the City as of December 31, 2016 was \$23,346,449. See Note 9 for additional details. Table 4 summarizes outstanding debt.

Table 4
Outstanding Debt at December 31, 2016

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 643,651	\$ 705,220	\$ 0	\$ 0	\$ 643,651	\$ 705,220
Capital Lease Payable	72,680	186,914	0	0	72,680	186,914
OPWC Loans	352,193	390,392	1,551,548	1,212,365	1,903,741	1,602,757
OWDA Loans	2,678,167	3,023,697	18,048,210	16,093,721	20,726,377	19,117,418
Total	\$ 3,746,691	\$ 4,306,223	\$ 19,599,758	\$ 17,306,086	\$ 23,346,449	\$ 21,612,309

City of Upper Sandusky
Wyandot County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2016
(Unaudited)

Economic Factors

On a cash basis, the City has seen a 6 percent increase in 2015 over 2014 in income tax revenue and a 3 percent increase in 2016 over 2015. With the enacting of Substitute Senate Bill Number 172, which adjusted the manner in which employer reported and paid their employees income tax deductions, this figure may be inflated since employee deductions occurring in the last quarter of 2016 previously would have been received in the first quarter of 2017. As in prior years we still rely heavily on the income tax revenue and will find it necessary to keep expenditures no higher than the 2016 level but as always provide basic services to its citizens.

With the City undertaking an extensive Sewer Separation project in 2016, the City found it necessary to increase Sewer rates by fifty cents (\$0.50) per 1000 gallons. As required by the financing agreement for the sewer separation project, the City will be implementing a sewer rate increase schedule for the years 2017, 2018 and 2019. In the month of April of each listed year the sewer rate will increase by one dollar (\$1.00) per 1000 gallons to cover the cost of the current sewer separation project and the upcoming waste water treatment plant upgrades. There were no changes made to the water or sanitation rates. We continue to use rate studies to be sure we are keeping up with necessary increase in order to provide the services the citizens are accustomed.

As in years past, the City has committed itself to financial excellence and will do the same in the future.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional financial information, contact Mark Droll, Auditor of City of Upper Sandusky, 119 N. 7th Street, Upper Sandusky, Ohio 43351 or 419-294-3988.

City of Upper Sandusky
Wyandot County, Ohio
Statement of Net Position
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Investments	\$ 3,062,668	\$ 3,409,831	\$ 6,472,499
Accounts Receivable	101,060	723,743	824,803
Intergovernmental Receivable	288,248	49,558	337,806
Taxes Receivable	1,241,852	0	1,241,852
Revenue in Lieu of Taxes Receivable	55,000	0	55,000
Notes Receivable	296,901	0	296,901
Materials and Supplies Inventory	46,732	92,954	139,686
Non-Depreciable Capital Assets	788,900	5,084,130	5,873,030
Depreciable Capital Assets, Net	17,844,041	31,718,365	49,562,406
<i>Total Assets</i>	<u>23,725,402</u>	<u>41,078,581</u>	<u>64,803,983</u>
Deferred Outflows of Resources			
Pension	1,899,580	517,306	2,416,886
Liabilities			
Accounts Payable	78,569	100,914	179,483
Accrued Wages	90,231	39,668	129,899
Contracts Payable	0	1,475,274	1,475,274
Intergovernmental Payable	76,710	26,446	103,156
Accrued Interest Payable	18,626	0	18,626
Claims Payable	115,527	0	115,527
Long-Term Liabilities:			
Due Within One Year	628,945	528,711	1,157,656
Due In More Than One Year:			
Net Pension Liability (See Note 11)	5,043,435	1,295,857	6,339,292
Other Amonts Due in More Than One Year	3,322,017	19,147,701	22,469,718
<i>Total Liabilities</i>	<u>9,374,060</u>	<u>22,614,571</u>	<u>31,988,631</u>
Deferred Inflows of Resources			
Property Taxes Levied for the Next Year	271,000	0	271,000
Revenue in Lieu of Taxes for the Next Year	55,000	0	55,000
Pension	43,303	25,036	68,339
<i>Total Deferred Inflows of Resources</i>	<u>369,303</u>	<u>25,036</u>	<u>394,339</u>
Net Position			
Net Investment in Capital Assets	18,221,610	15,727,463	30,613,713 *
Restricted for Capital Outlay	281,926	0	281,926
Restricted for Other Purposes	1,355,062	0	1,355,062
Unrestricted	(3,976,979)	3,228,817	2,587,198
<i>Total Net Position</i>	<u>\$ 15,881,619</u>	<u>\$ 18,956,280</u>	<u>\$ 34,837,899</u>

*Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the net investment in capital assets for 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
Wyandot County, Ohio
Statement of Activities
For the Year Ended December 31, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 1,848,724	\$ 1,295,126	\$ 0	\$ 0	\$ (553,598)	\$ 0	\$ (553,598)
Security of Persons and Property	2,518,660	26,060	0	0	(2,492,600)	0	(2,492,600)
Public Health	31,670	0	0	0	(31,670)	0	(31,670)
Leisure Time Services	644,168	43,942	15,631	15,996	(568,599)	0	(568,599)
Community Development	116,534	0	9,675	0	(106,859)	0	(106,859)
Basic Utility Service	262,076	0	0	0	(262,076)	0	(262,076)
Transportation	1,015,540	0	348,458	0	(667,082)	0	(667,082)
Interest and Fiscal Charges	141,846	0	0	0	(141,846)	0	(141,846)
<i>Total Governmental Activities</i>	<u>6,579,218</u>	<u>1,365,128</u>	<u>373,764</u>	<u>15,996</u>	<u>(4,824,330)</u>	<u>0</u>	<u>(4,824,330)</u>
Business-Type Activities							
Water	2,840,687	2,814,390	29,719	0	0	3,422	3,422
Sewer	1,416,789	1,470,088	0	328,113	0	381,412	381,412
Sanitation	789,822	816,828	0	0	0	27,006	27,006
<i>Total Business-Type Activities</i>	<u>5,047,298</u>	<u>5,101,306</u>	<u>29,719</u>	<u>328,113</u>	<u>0</u>	<u>411,840</u>	<u>411,840</u>
<i>Total Primary Government</i>	<u>\$ 11,626,516</u>	<u>\$ 6,466,434</u>	<u>\$ 403,483</u>	<u>\$ 344,109</u>	<u>(4,824,330)</u>	<u>411,840</u>	<u>(4,412,490)</u>
General Revenues:							
Property Taxes Levied for:							
					285,769	0	285,769
Income Taxes Levied for:							
					2,469,620	0	2,469,620
					486,003	0	486,003
					334,127	0	334,127
					19,686	0	19,686
					265,269	0	265,269
					0	2,387	2,387
					48,885	0	48,885
					11,119	0	11,119
					59,174	72,735	131,909
<i>Total General Revenues</i>					<u>3,979,652</u>	<u>75,122</u>	<u>4,054,774</u>
Transfers					487,927	(487,927)	0
<i>Change in Net Position</i>					<u>(356,751)</u>	<u>(965)</u>	<u>(357,716)</u>
<i>Net Position Beginning of Year</i>					<u>16,238,370</u>	<u>18,957,245</u>	<u>35,195,615</u>
<i>Net Position End of Year</i>					<u>\$ 15,881,619</u>	<u>\$ 18,956,280</u>	<u>\$ 34,837,899</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Wyandot County, Ohio
Balance Sheet
Governmental Funds
December 31, 2016

	General	Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 1,253,864	\$ 201,903	\$ 1,423,076	\$ 2,878,843
Accounts Receivable	67,885	0	33,175	101,060
Intergovernmental Receivable	131,912	0	156,336	288,248
Taxes Receivable	991,503	101,364	148,985	1,241,852
Revenue in Lieu of Taxes Receivable	0	55,000	0	55,000
Notes Receivable	0	0	296,901	296,901
Materials and Supplies Inventory	1,271	0	45,461	46,732
<i>Total Assets</i>	<u>\$ 2,446,435</u>	<u>\$ 358,267</u>	<u>\$ 2,103,934</u>	<u>\$ 4,908,636</u>
Liabilities				
Accounts Payable	\$ 53,024	\$ 2,715	\$ 22,830	\$ 78,569
Accrued Wages	75,237	0	14,994	90,231
Intergovernmental Payable	61,093	0	15,617	76,710
<i>Total Liabilities</i>	<u>189,354</u>	<u>2,715</u>	<u>53,441</u>	<u>245,510</u>
Deferred Inflows of Resources				
Property Taxes Levied for the Next Year	271,000	0	0	271,000
Revenue in Lieu of Taxes for the Next Year	0	55,000	0	55,000
Unavailable Revenue	634,405	80,587	229,873	944,865
<i>Total Deferred Inflows of Resources</i>	<u>905,405</u>	<u>135,587</u>	<u>229,873</u>	<u>1,270,865</u>
Fund Balances				
Nonspendable	1,271	0	45,461	46,732
Restricted	0	219,965	1,343,142	1,563,107
Committed	0	0	432,017	432,017
Assigned	145,108	0	0	145,108
Unassigned	1,205,297	0	0	1,205,297
<i>Total Fund Balances</i>	<u>1,351,676</u>	<u>219,965</u>	<u>1,820,620</u>	<u>3,392,261</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 2,446,435</u>	<u>\$ 358,267</u>	<u>\$ 2,103,934</u>	<u>\$ 4,908,636</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Wyandot County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
December 31, 2016

Total Governmental Fund Balances		\$ 3,392,261
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,632,941
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property and Other Local Taxes	\$ 7,294	
Income Tax	732,608	
Intergovernmental	196,917	
Charges for Services	<u>8,046</u>	944,865
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		68,298
Accrued interest payable is not due and payable in the current period and therefore not reported in the funds.		(18,626)
The net pension liability is not due and payable in the current period; therefore the liability and related deferred inflows/outflows are not reported in governmental funds.		
Deferred Outflows - Pension	1,899,580	
Deferred Inflows - Pension	(43,303)	
Net Pension Liability	<u>(5,043,435)</u>	(3,187,158)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(643,651)	
OPWC Loans	(352,193)	
OWDA Loans	(2,678,167)	
Capital Leases	(72,680)	
Compensated Absences	<u>(204,271)</u>	<u>(3,950,962)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ 15,881,619</u></u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Wyandot County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 312,881	\$ 0	\$ 18,139	\$ 331,020
Income Taxes	2,412,363	325,499	475,001	3,212,863
Charges for Services	82,729	0	43,942	126,671
Licenses and Permits	78,649	0	0	78,649
Fines and Forfeitures	772,221	0	387,265	1,159,486
Intergovernmental	240,739	0	363,471	604,210
Interest	11,119	0	9,674	20,793
Contributions and Donations	0	0	15,631	15,631
Payments in Lieu of Taxes	0	48,885	0	48,885
Other	30,382	2,009	25,157	57,548
<i>Total Revenues</i>	<u>3,941,083</u>	<u>376,393</u>	<u>1,338,280</u>	<u>5,655,756</u>
Expenditures				
Current:				
General Government	1,634,435	0	256,175	1,890,610
Security of Persons and Property	2,080,812	0	0	2,080,812
Public Health	31,670	0	0	31,670
Leisure Time Services	0	57,611	520,521	578,132
Community Development	85,125	0	32,823	117,948
Basic Utility Service	0	262,076	0	262,076
Transportation	0	50,539	343,681	394,220
Debt Service:				
Principal Retirement	89,173	459,219	11,140	559,532
Interest and Fiscal Charges	16,612	124,487	724	141,823
<i>Total Expenditures</i>	<u>3,937,827</u>	<u>953,932</u>	<u>1,165,064</u>	<u>6,056,823</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,256</u>	<u>(577,539)</u>	<u>173,216</u>	<u>(401,067)</u>
Other Financing Sources (Uses)				
Transfers In	118,700	500,961	0	619,661
Transfers Out	(13,034)	0	(118,700)	(131,734)
<i>Total Other Financing Sources (Uses)</i>	<u>105,666</u>	<u>500,961</u>	<u>(118,700)</u>	<u>487,927</u>
<i>Net Change in Fund Balance</i>	108,922	(76,578)	54,516	86,860
<i>Fund Balance Beginning of Year</i>	1,242,992	296,543	1,749,762	3,289,297
Change in Reserve for Inventory	(238)	0	16,342	16,104
<i>Fund Balance End of Year</i>	<u>\$ 1,351,676</u>	<u>\$ 219,965</u>	<u>\$ 1,820,620</u>	<u>\$ 3,392,261</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Wyandot County, Ohio
*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, 2016*

Net Change in Fund Balances - Total Governmental Funds	\$	102,964
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Asset Additions	\$ 156,294	
Current Year Depreciation	<u>(999,068)</u>	(842,774)
 Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(6,757)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income Tax	78,434	
Intergovernmental	(9,634)	
Accounts	<u>998</u>	69,798
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
General Obligation Bonds	61,569	
OPWC Loans	38,199	
OWDA Loans	345,530	
Capital Lease	<u>114,234</u>	559,532
 In the statement of activities, interest is accrued on outstanding bonds, and bond premium and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable		(23)
 Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		(642,862)
 Except for amount reported as deferred inflows/outflows, changes in the net pension asset/liability are reported as pension expense in the statement of activities.		
		343,518
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		68,298
 Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		<u>(8,445)</u>
 <i>Change in Net Position of Governmental Activities</i>	 \$	 <u><u>(356,751)</u></u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Wyandot County, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2016

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 386,000	\$ 386,000	\$ 311,371	\$ (74,629)
Income Taxes	2,032,700	2,312,700	2,509,842	197,142
Charges for Services	66,100	66,100	82,736	16,636
Licenses and Permits	82,250	82,250	79,968	(2,282)
Fines and Forfeitures	606,000	606,000	777,036	171,036
Intergovernmental	253,250	253,250	241,312	(11,938)
Interest	5,000	5,000	11,119	6,119
Other	31,700	31,700	30,382	(1,318)
<i>Total Revenues</i>	<u>3,463,000</u>	<u>3,743,000</u>	<u>4,043,766</u>	<u>300,766</u>
Expenditures				
Current:				
General Government	1,724,600	1,801,600	1,684,942	116,658
Security of Persons and Property	2,198,000	2,232,000	2,075,167	156,833
Public Health	34,000	34,000	31,670	2,330
Community Development	86,500	89,500	84,501	4,999
Debt Service:				
Principal Retirement	89,300	89,300	89,173	127
Interest and Fiscal Charges	16,700	18,700	16,612	2,088
<i>Total Expenditures</i>	<u>4,149,100</u>	<u>4,265,100</u>	<u>3,982,065</u>	<u>283,035</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(686,100)</u>	<u>(522,100)</u>	<u>61,701</u>	<u>583,801</u>
Other Financing Sources (Uses)				
Transfers In	118,700	118,700	118,700	0
Transfers Out	0	0	(13,034)	(13,034)
<i>Total Other Financing Sources (Uses)</i>	<u>118,700</u>	<u>118,700</u>	<u>105,666</u>	<u>(13,034)</u>
<i>Net Change in Fund Balance</i>	(567,400)	(403,400)	167,367	570,767
<i>Fund Balance Beginning of Year</i>	<u>1,074,498</u>	<u>1,074,498</u>	<u>1,074,498</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 507,098</u>	<u>\$ 671,098</u>	<u>\$ 1,241,865</u>	<u>\$ 570,767</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Wyandot County, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2016

	Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	Total	
Assets					
<i>Current Assets:</i>					
Equity in Pooled Cash and Investments	\$ 1,567,247	\$ 1,208,829	\$ 633,755	\$ 3,409,831	\$ 183,825
Accounts Receivable	401,544	207,725	114,474	723,743	0
Intergovernmental Receivable	0	49,558	0	49,558	0
Materials and Supplies Inventory	54,547	12,464	25,943	92,954	0
<i>Total Current Assets</i>	<u>2,023,338</u>	<u>1,478,576</u>	<u>774,172</u>	<u>4,276,086</u>	<u>183,825</u>
<i>Non-Current Assets:</i>					
Non-Depreciable Capital Assets	22,840	5,061,290	0	5,084,130	0
Depreciable Capital Assets, Net	26,960,123	4,352,603	405,639	31,718,365	0
<i>Total Non-Current Assets</i>	<u>26,982,963</u>	<u>9,413,893</u>	<u>405,639</u>	<u>36,802,495</u>	<u>0</u>
<i>Total Assets</i>	<u>29,006,301</u>	<u>10,892,469</u>	<u>1,179,811</u>	<u>41,078,581</u>	<u>183,825</u>
Deferred Outflows of Resources					
Pension	243,549	156,681	117,076	517,306	0
Liabilities					
<i>Current Liabilities:</i>					
Accounts Payable	36,307	39,958	24,649	100,914	0
Accrued Wages	16,851	12,941	9,876	39,668	0
Contracts Payable	22,840	1,452,434	0	1,475,274	0
Intergovernmental Payable	9,681	12,305	4,460	26,446	0
Claims Payable	0	0	0	0	115,527
Compensated Absences Payable	15,353	19,602	6,827	41,782	0
OPWC Loans Payable	42,093	0	0	42,093	0
OWDA Loans Payable	444,836	0	0	444,836	0
<i>Total Current Liabilities</i>	<u>587,961</u>	<u>1,537,240</u>	<u>45,812</u>	<u>2,171,013</u>	<u>115,527</u>
<i>Long-Term Liabilities:</i>					
Compensated Absences Payable - Net of Current Portion	11,939	22,933	0	34,872	0
OPWC Loans Payable - Net of Current Portion	1,128,179	381,276	0	1,509,455	0
OWDA Loans Payable - Net of Current Portion	14,890,708	2,712,666	0	17,603,374	0
Net Pension Liability	610,145	392,457	293,255	1,295,857	0
<i>Total Long-Term Liabilities</i>	<u>16,640,971</u>	<u>3,509,332</u>	<u>293,255</u>	<u>20,443,558</u>	<u>0</u>
<i>Total Liabilities</i>	<u>17,228,932</u>	<u>5,046,572</u>	<u>339,067</u>	<u>22,614,571</u>	<u>115,527</u>
Deferred Inflows of Resources					
Pension	11,787	7,583	5,666	25,036	0
Net Position					
Net Investment in Capital Assets	10,454,307	4,867,517	405,639	15,727,463 *	0
Unrestricted	1,554,824	1,127,478	546,515	3,228,817	68,298
<i>Total Net Position</i>	<u>\$12,009,131</u>	<u>\$ 5,994,995</u>	<u>\$ 952,154</u>	<u>\$ 18,956,280</u>	<u>\$ 68,298</u>

*Debt related to certain business-type assets is included in the governmental activities. This debt has not been included in the net investment in capital assets for 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
Wyandot County, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Enterprise Funds			Governmental Activities - Internal Service Fund	
	Water	Sewer	Sanitation		Totals
Operating Revenues					
Charges for Services	\$ 2,814,390	\$ 1,470,088	\$ 816,828	\$ 5,101,306	\$ 974,201
Other	0	0	0	0	120,100
<i>Total Operating Revenues</i>	<u>2,814,390</u>	<u>1,470,088</u>	<u>816,828</u>	<u>5,101,306</u>	<u>1,094,301</u>
Operating Expenses					
Personal Services	774,211	549,075	439,506	1,762,792	0
Contractual Services	272,025	490,451	191,181	953,657	300,973
Materials and Supplies	443,355	145,590	65,007	653,952	0
Claims	0	0	0	0	720,683
Depreciation	852,912	229,678	91,787	1,174,377	0
Other	2,383	1,995	2,341	6,719	4,347
<i>Total Operating Expenses</i>	<u>2,344,886</u>	<u>1,416,789</u>	<u>789,822</u>	<u>4,551,497</u>	<u>1,026,003</u>
<i>Operating Income (Loss)</i>	<u>469,504</u>	<u>53,299</u>	<u>27,006</u>	<u>549,809</u>	<u>68,298</u>
Non-Operating Revenues (Expense)					
Intergovernmental	29,719	0	0	29,719	0
Gain on Sale of Capital Assets	2,387	0	0	2,387	0
Other Non-Operating Revenues	22,692	27,848	22,195	72,735	0
Interest and Fiscal Charges	(495,801)	0	0	(495,801)	0
<i>Total Non-Operating Revenues (Expense)</i>	<u>(441,003)</u>	<u>27,848</u>	<u>22,195</u>	<u>(390,960)</u>	<u>0</u>
<i>Income (Loss) Before Capital Contributions and Transfers</i>	<u>28,501</u>	<u>81,147</u>	<u>49,201</u>	<u>158,849</u>	<u>68,298</u>
Capital Contributions	0	328,113	0	328,113	0
Transfers Out	(452,693)	(17,617)	(17,617)	(487,927)	0
<i>Change in Net Position</i>	(424,192)	391,643	31,584	(965)	68,298
<i>Net Position Beginning of Year</i>	<u>12,433,323</u>	<u>5,603,352</u>	<u>920,570</u>	<u>18,957,245</u>	<u>0</u>
<i>Net Position End of Year</i>	<u>\$ 12,009,131</u>	<u>\$ 5,994,995</u>	<u>\$ 952,154</u>	<u>\$ 18,956,280</u>	<u>\$ 68,298</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Wyandot County, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	Totals	
Cash Flows from Operating Activities					
Cash Received from Customers	\$ 2,810,115	\$ 1,455,591	\$ 816,395	\$ 5,082,101	\$ 0
Cash Received from Interfund Services Provided	0	0	0	0	974,201
Cash Received from Other Operating Receipts	0	0	0	0	120,100
Cash Payments to Suppliers for Goods and Services	(410,085)	(143,710)	(104,018)	(657,813)	0
Cash Payments to Employees for Services and Benefits	(730,216)	(470,411)	(367,898)	(1,568,525)	0
Cash Payments for Contractual Services	(268,933)	(483,698)	(196,299)	(948,930)	(300,973)
Cash Payments for Claims	0	0	0	0	(605,156)
Other Cash Payments	(2,383)	(2,358)	(2,341)	(7,082)	(4,347)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>1,398,498</u>	<u>355,414</u>	<u>145,839</u>	<u>1,899,751</u>	<u>183,825</u>
Cash Flows from Noncapital Financing Activities					
Intergovernmental Revenue	29,719	0	0	29,719	0
Other Non-Operating Receipts	22,692	27,848	22,195	72,735	0
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>52,411</u>	<u>27,848</u>	<u>22,195</u>	<u>102,454</u>	<u>0</u>
Cash Flows from Capital and Related Financing Activities					
Capital Grants	145,900	278,555	0	424,455	0
Proceeds of OPWC Loans	0	381,276	0	381,276	0
Proceeds of OWDA Loans	0	2,385,908	0	2,385,908	0
Acquisition of Capital Assets	(216,076)	(3,035,769)	(271,288)	(3,523,133)	0
Transfers Out for Capital Debt Retirement	(452,693)	(17,617)	(17,617)	(487,927)	0
Principal Payments on Debt	(473,512)	0	0	(473,512)	0
Interest Payments on Debt	(495,801)	0	0	(495,801)	0
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(1,492,182)</u>	<u>(7,647)</u>	<u>(288,905)</u>	<u>(1,788,734)</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Investments</i>	(41,273)	375,615	(120,871)	213,471	183,825
<i>Cash and Investments Beginning of Year</i>	<u>1,608,520</u>	<u>833,214</u>	<u>754,626</u>	<u>3,196,360</u>	<u>0</u>
<i>Cash and Investments End of Year</i>	<u>\$ 1,567,247</u>	<u>\$ 1,208,829</u>	<u>\$ 633,755</u>	<u>\$ 3,409,831</u>	<u>\$ 183,825</u>

(Continued)

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Wyandot County, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Sanitation	Totals	
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities					
Operating Income (Loss)	\$ 469,504	\$ 53,299	\$ 27,006	\$ 549,809	\$ 68,298
Adjustments:					
Depreciation	852,912	229,678	91,787	1,174,377	0
Gain on Disposal of Capital Assets	2,387	0	0	2,387	0
(Increase) Decrease in Assets and Deferred Outflows:					
Accounts Receivable	(6,662)	(14,497)	(433)	(21,592)	0
Materials and Supplies Inventory	33,270	1,782	(25,943)	9,109	0
Net Pension Asset	433	256	151	840	0
Deferred Outflows - Pension	(172,434)	(114,761)	(92,336)	(379,531)	0
Increase (Decrease) in Liabilities and Deferred Inflows:					
Accounts Payable	3,092	1,108	(18,186)	(13,986)	0
Accrued Wages	1,232	6,621	2,766	10,619	0
Claims Payable	0	0	0	0	115,527
Compensated Absences Payable	(8,158)	19,929	132	11,903	0
Intergovernmental Payable	(659)	6,773	554	6,668	0
Deferred Inflows - Pension	4,779	3,452	3,228	11,459	0
Net Pension Liability	218,802	161,774	157,113	537,689	0
<i>Net Cash Provided by (Used For) Operating Activities</i>	<u>\$ 1,398,498</u>	<u>\$ 355,414</u>	<u>\$ 145,839</u>	<u>\$ 1,899,751</u>	<u>\$ 183,825</u>

Noncash Capital Financing Activities:

The Water Fund purchased \$22,840 and \$145,900 of capital assets on account in 2016 and 2015, respectively.
The Sewer Fund purchased \$1,452,434 of capital assets on account in 2016.

City of Upper Sandusky
Wyandot County, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2016

	<u>Agency Funds</u>
Assets	
Cash and Investments in Segregated Accounts	\$ 39,670
<i>Total Assets</i>	<u>\$ 39,670</u>
Liabilities	
Accounts Payable	\$ 1,533
Payroll Withholdings	8,781
Undistributed Monies	29,356
<i>Total Liabilities</i>	<u>\$ 39,670</u>

See accompanying notes to the basic financial statements.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

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

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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

A. BASIS OF PRESENTATION

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

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

Government-wide Financial Statements

The statement of net position 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 activity of the internal service fund is eliminated to avoid “doubling up” of revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The statement of net position 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

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.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

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

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

The other governmental funds of the City are for grants and other resources, debt service, and capital projects to which the City is bound to observe constraints imposed upon the use of the resources.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds focus on the determination of the changes in net position, financial position and cash flows and are classified as either enterprise or internal service.

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

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

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

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

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis. The City's only internal service fund accounts for a self-insurance program for employee medical and prescription claims.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

Fiduciary Funds

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

C. MEASUREMENT FOCUS

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position.

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 assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. BASIS OF ACCOUNTING

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

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

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 one 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: income taxes, fines and forfeitures, entitlements, and state-levied locally shared taxes (including gasoline tax and motor vehicle license fees).

Deferred Inflows of Resources and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources related to pension are explained in Note 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources include property taxes, pension, revenue in lieu of taxes, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, intergovernmental grants and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11.)

Expenses/Expenditures

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

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

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

E. BUDGET

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

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

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 2016.

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.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

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 investments" on the combined balance sheet.

During 2016, investments were limited to money market accounts and certificates of deposit. 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 2016 amounted to \$11,119 which included \$9,674 assigned from other funds of the City.

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

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

G. INVENTORIES

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

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

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 consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reporting of inventories on the accrual basis is expensed when used.

H. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the governmental activities column of the government-wide statement of net position 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 position 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 acquisition values as of the date received. The City maintains a capitalization threshold of \$5,000. Public domain ("infrastructure") general capital assets consisting of roads, highways, tunnels, bridges, curbs, sidewalks, fire hydrants, guard rails, landscaping, streets, drainage systems and lighting systems have been capitalized under requirements of the Governmental Accounting Standards Board. Improvements are capitalized and the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20 - 40 Years
Machinery and Equipment	5 - 20 Years
Vehicles	8 Years
Infrastructure	50 Years

I. INTERFUND BALANCES

On fund financial statements, transactions representing services rendered between funds are classified as "Due to Other Funds" and "Due from Other Funds". These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

J. COMPENSATED ABSENCES

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

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

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

K. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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, compensated absences, and net pension liability 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.

City of Upper Sandusky
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Notes to the Financial Statements
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M. FUND BALANCE

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

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

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the City. The Council has by resolution authorized the auditor to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

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

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

City of Upper Sandusky
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Notes to the Financial Statements
For the Year Ended December 31, 2016

N. NET POSITION

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include amounts to provide general governmental services.

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

O. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activities of the proprietary funds. For the City, these revenues are service charges for water, sewer, sanitation, and self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenue and expenses not meeting these definitions are classified as non-operating.

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.

Q. INTERFUND ACTIVITY

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

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

City of Upper Sandusky
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Notes to the Financial Statements
For the Year Ended December 31, 2016

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 2016.

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. IMPLEMENTATION OF NEW ACCOUNTING POLICIES

For the year ended December 31, 2016, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the City.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the City.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the City.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any change in the City's financial statements as the City does not have any material GASB Statement No. 77 tax abatements.

City of Upper Sandusky
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Notes to the Financial Statements
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GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the City.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The implementation of GASB Statement No. 79 did not have an effect on 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 is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The “statement of revenue, expenditures, and changes in fund balance - budget (non-GAAP basis) and actual” presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
3. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a restriction, commitment or assignment of fund balance for that portion of outstanding encumbrances not already recognized as payables (GAAP basis).

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

Net Change in Fund Balance	
	<u>General Fund</u>
GAAP Basis	\$ 108,922
Net Adjustment for Revenue Accruals	102,683
Net Adjustment for Expenditure Accruals	(32,239)
Adjustment for Encumbrances	(11,999)
Budget Basis	<u>\$ 167,367</u>

City of Upper Sandusky
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Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 4 -- DEPOSITS AND INVESTMENTS

Deposits

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

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

Inactive deposits are public deposits that the City has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

City of Upper Sandusky
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Notes to the Financial Statements
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7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 40 percent of the interim monies available for investment at any one time for a period not to exceed one hundred eighty days.
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2016, the City and public depositories complied with the provisions of these statutes.

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

Deposits: At year-end, the carrying amount of the City's deposits was \$6,511,419 and the bank balance was \$6,700,481. Of the bank balance, \$3,503,058 was covered by federal depository insurance, and \$3,197,423 was exposed to custodial risk, as described below.

Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent 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.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 5 -- RECEIVABLES

Receivables at December 31, 2016, consisted primarily of municipal income taxes, property and other taxes, due from other governments arising from entitlements, shared revenues, accounts (billings for utility service), revenue in lieu of taxes, 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 2016 for real and public utility property taxes represents collections of the 2015 taxes.

2016 real property taxes were levied after October 1, 2016 on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes which became a lien December 31, 2016, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2016, was \$3.80 per \$1,000 of assessed valuation. The assessed values of real property and public utility tangible property upon which 2016 property tax receipts were based are as follows:

	<u>Assessed Value</u>
Real Property	\$ 109,105,140
Public Utilities - Real	25,160
Public Utilities - Personal	<u>4,608,840</u>
	<u>\$ 113,739,140</u>

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2016, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2016 operations is offset to deferred inflows of resources – property taxes levied for the next year. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

City of Upper Sandusky
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Notes to the Financial Statements
For the Year Ended December 31, 2016

Income Taxes

The City levies and collects an income tax of 1 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. Effective December 21, 2009, an ordinance was passed by Council establishing re-allocation of income tax. After defraying all necessary costs of collecting, administering, and enforcing the tax, the balance shall be allocated 73 percent to the general fund, 16 percent to the parks and recreation fund and 11 percent to the capital improvement fund.

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.

Health and Prescription Coverage

Effective January 1, 2016 the City began providing medical and dental insurance to its employees through a self-insurance plan. The City pays a monthly administrative premium, including a stop-loss fee, for the self-insurance plan. The City contracts with a third-party administrator to direct this program. During 2016, self-insurance was in effect for claims up to \$25,000 per covered individual and \$838,847 in aggregate. Any claims exceeding these thresholds are covered by a stop-loss insurance policy.

City of Upper Sandusky
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At December 31, 2016, \$115,527 has been accrued for self-insurance claims. The claims liability reported in the self-insurance fund is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. This represents estimates to be paid for medical and prescription unpaid claims costs, including an estimate of costs relating to incurred but not yet reported claims based on the current information available.

A reconciliation of the change in the balance of claims liabilities during 2016 follows:

	<u>Balance</u> <u>Beginning of Year</u>	<u>Current</u> <u>Year Claims</u>	<u>Claims</u> <u>Payments</u>	<u>Balance</u> <u>End of Year</u>
2016 \$	0	\$ 720,683	\$ 605,156	\$ 115,527

NOTE 7 -- CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016:

	<u>Balance</u> <u>12/31/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2016</u>
Governmental Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 788,900	\$ 0	\$ 0	\$ 788,900
Construction in Progress	35,825	23,079	(58,904)	0
<i>Total Capital Assets, Not Being Depreciated</i>	<u>824,725</u>	<u>23,079</u>	<u>(58,904)</u>	<u>788,900</u>
 <i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	8,421,855	90,674	0	8,512,529
Machinery and Equipment	1,225,287	101,445	(40,943)	1,285,789
Infrastructure	23,036,041	0	0	23,036,041
Vehicles	2,032,114	0	0	2,032,114
<i>Total Capital Assets, Being Depreciated</i>	<u>34,715,297</u>	<u>192,119</u>	<u>(40,943)</u>	<u>34,866,473</u>
 <i>Accumulated Depreciation</i>				
Buildings and Improvements	(6,405,320)	(262,521)	0	(6,667,841)
Machinery and Equipment	(611,657)	(106,877)	34,186	(684,348)
Infrastructure	(7,738,432)	(459,686)	0	(8,198,118)
Vehicles	(1,302,141)	(169,984)	0	(1,472,125)
<i>Total Accumulated Depreciated</i>	<u>(16,057,550)</u>	<u>(999,068)</u>	<u>34,186</u>	<u>(17,022,432)</u>
 <i>Total Capital Assets Being Depreciated, Net</i>	 <u>18,657,747</u>	 <u>(806,949)</u>	 <u>(6,757)</u>	 <u>17,844,041</u>
 <i>Governmental Activities, Capital Assets, Net</i>	 <u>\$ 19,482,472</u>	 <u>\$ (783,870)</u>	 <u>\$ (65,661)</u>	 <u>\$ 18,632,941</u>

City of Upper Sandusky
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General Government:	
Legislative and Executive	\$ 19,793
Judicial	23,243
Security of Persons and Property	170,929
Transportation	612,734
Leisure Time Activities	172,369
Total Depreciation	<u>\$ 999,068</u>

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
Business-Type Activities				
		Water		
<i>Capital Assets, Not Being Depreciated</i>				
Construction in Progress	\$ 0	\$ 22,840	\$ 0	\$ 22,840
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	\$ 18,139,896	\$ 0	\$ 0	\$ 18,139,896
Machinery and Equipment	329,737	0	0	329,737
Infrastructure	20,722,865	0	0	20,722,865
Vehicles	132,355	70,176	(27,696)	174,835
<i>Total Capital Assets, Being Depreciated</i>	<u>39,324,853</u>	<u>70,176</u>	<u>(27,696)</u>	<u>39,367,333</u>
<i>Accumulated Depreciation</i>				
Buildings and Improvements	(2,552,717)	(450,260)	0	(3,002,977)
Machinery and Equipment	(205,006)	(24,853)	0	(229,859)
Infrastructure	(8,747,012)	(361,221)	0	(9,108,233)
Vehicles	(77,259)	(16,578)	27,696	(66,141)
<i>Total Accumulated Depreciated</i>	<u>(11,581,994)</u>	<u>(852,912)</u>	<u>27,696</u>	<u>(12,407,210)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>27,742,859</u>	<u>(782,736)</u>	<u>0</u>	<u>26,960,123</u>
<i>Business-Type Activities, Capital Assets, Net</i>	<u>\$ 27,742,859</u>	<u>\$ (759,896)</u>	<u>\$ 0</u>	<u>\$ 26,982,963</u>

City of Upper Sandusky
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Notes to the Financial Statements
For the Year Ended December 31, 2016

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
Business-Type Activities				
Sewer				
<i>Capital Assets, Not Being Depreciated</i>				
Construction in Progress	\$ 603,471	\$ 4,457,819	\$ 0	\$ 5,061,290
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	2,550,019	0	0	2,550,019
Machinery and Equipment	1,182,335	30,384	0	1,212,719
Infrastructure	7,866,353	0	0	7,866,353
Vehicles	84,536	0	0	84,536
<i>Total Capital Assets, Being Depreciated</i>	<u>11,683,243</u>	<u>30,384</u>	<u>0</u>	<u>11,713,627</u>
<i>Accumulated Depreciation</i>				
Buildings and Improvements	(1,595,706)	(57,619)	0	(1,653,325)
Machinery and Equipment	(1,020,916)	(21,835)	0	(1,042,751)
Infrastructure	(4,466,604)	(141,710)	0	(4,608,314)
Vehicles	(48,120)	(8,514)	0	(56,634)
<i>Total Accumulated Depreciated</i>	<u>(7,131,346)</u>	<u>(229,678)</u>	<u>0</u>	<u>(7,361,024)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>4,551,897</u>	<u>(199,294)</u>	<u>0</u>	<u>4,352,603</u>
<i>Business-Type Activities, Capital Assets, Net</i>	<u>\$ 5,155,368</u>	<u>\$ 4,258,525</u>	<u>\$ 0</u>	<u>\$ 9,413,893</u>
Sanitation				
<i>Capital Assets, Being Depreciated</i>				
Machinery and Equipment	\$ 156,293	\$ 46,000	\$ 0	\$ 202,293
Vehicles	553,197	225,288	(86,293)	692,192
<i>Total Capital Assets, Being Depreciated</i>	<u>709,490</u>	<u>271,288</u>	<u>(86,293)</u>	<u>894,485</u>
<i>Accumulated Depreciation</i>				
Machinery and Equipment	(93,776)	(13,487)	0	(107,263)
Vehicles	(389,576)	(78,300)	86,293	(381,583)
<i>Total Accumulated Depreciated</i>	<u>(483,352)</u>	<u>(91,787)</u>	<u>86,293</u>	<u>(488,846)</u>
<i>Business-Type Activities, Capital Assets, Net</i>	<u>\$ 226,138</u>	<u>\$ 179,501</u>	<u>\$ 0</u>	<u>\$ 405,639</u>

City of Upper Sandusky
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Notes to the Financial Statements
For the Year Ended December 31, 2016

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 30 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, 2016, 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 \$134,119. 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 \$146,806 has been recognized. Vacation is accumulated based upon length of service as follows:

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

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

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City of Upper Sandusky
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Notes to the Financial Statements
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NOTE 9 -- LONG TERM LIABILITIES

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

	Balance 12/31/2015	Additions	Deductions	Balance 12/31/2016	Amount Due Within One Year
Governmental Activities:					
OWDA - 2002 Reservoir Construction					
Matures 2023; 4.65%	\$ 3,023,697	\$ 0	\$ 345,530	\$ 2,678,167 *	\$ 361,784
OPWC - 1996 Wastewater Treatment Plant					
Matures 2016; 0.00%	13,500	0	13,500	0 *	0
OPWC - 2004 Rock Run Road Improvements					
Matures 2024; 0.00%	34,380	0	3,820	30,560 *	3,820
OPWC - 2005 CSO Removal					
Matures 2025; 0.00%	120,104	0	12,642	107,462 *	12,642
OPWC - 2011 Commerce Drive Storm Drainage					
Matures 2042; 0.00%	222,408	0	8,237	214,171 *	8,237
	<u>390,392</u>	<u>0</u>	<u>38,199</u>	<u>352,193</u>	<u>24,699</u>
Capital Improvement Bonds - 2005					
Matures 2025; 3.00% to 4.80%	330,000	0	25,000	305,000 *	27,000
Fire Truck Bond, Series 2014					
Matures 2024; 3.25%	375,220	0	36,569	338,651	37,758
Net Pension Liability:					
OPERS	1,316,947	447,616	0	1,764,563	0
OPF	2,039,059	1,239,813	0	3,278,872	0
	<u>3,356,006</u>	<u>1,687,429</u>	<u>0</u>	<u>5,043,435</u>	<u>0</u>
Compensated Absences	195,826	110,420	101,975	204,271	105,024
Capital Lease	186,914	0	114,234	72,680	72,680
	<u>\$ 7,858,055</u>	<u>\$ 1,797,849</u>	<u>\$ 661,507</u>	<u>\$ 8,994,397</u>	<u>\$ 628,945</u>

*These debt issues are recorded in governmental activities to finance assets of the business-type activities. See notation on pages 13 and 20 for a further description of the presentation on the statement of net position.

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	Balance 12/31/2015	Additions	Deductions	Balance 12/31/2016	Amount Due Within One Year
Business-Type Activities:					
OWDA - 2010 WTP & Storage Tower Matures 2041; 3.31%	\$ 13,765,908	\$ 0	\$ 350,769	\$ 13,415,139	\$ 362,476
OWDA - 2010 Sewer System Planning Matures 2016; 3.91%	135,824	2,197	138,021 **	0	0
OWDA - 2013 LTCP Planning Matures 2018; 3.67%	190,934	3,104	194,038 **	0	0
OWDA - 2013 Warpole Waterlines installed Matures 2043; 2.69%	497,135	0	12,732	484,403	13,077
OWDA - 2013 NE Quadrant Waterlines Matures 2034; 2%	1,503,920	0	67,918	1,436,002	69,283
OWDA - 2016 Sewer Separation Matures 2037; 1%	0	2,712,666	0	2,712,666	0
	<u>16,093,721</u>	<u>2,717,967</u>	<u>763,478</u>	<u>18,048,210</u>	<u>444,836</u>
OPWC - 2013 Elevated Tank Painting Matures 2043; 0%	475,000	0	16,667	458,333	16,667
OPWC - 2013 Waterline replacement Matures 2043; 0%	334,437	0	11,532	322,905	11,532
OPWC - 2013 Waterline replacement Matures 2043; 0%	402,928	0	13,894	389,034	13,894
OPWC - 2016 Sewer Separation Matures 2037; 0%	0	381,276	0	381,276	0
	<u>1,212,365</u>	<u>381,276</u>	<u>42,093</u>	<u>1,551,548</u>	<u>42,093</u>
Net Pension Liability-OPERS:					
Water	391,343	218,802	0	610,145	0
Sewer	230,683	161,774	0	392,457	0
Sanitation	136,142	157,113	0	293,255	0
	<u>758,168</u>	<u>537,689</u>	<u>0</u>	<u>1,295,857</u>	<u>0</u>
Compensated Absences	64,751	60,203	48,300	76,654	41,782
	<u>\$ 18,129,005</u>	<u>\$ 3,697,135</u>	<u>\$ 853,871</u>	<u>\$ 20,972,269</u>	<u>\$ 528,711</u>

** During 2016, the balances of these OWDA planning loans were rolled into the 2106 Sewer Separation loan.

Outstanding general obligation bonds consist of WWTP Improvements and a fire truck. General obligation bonds are a direct obligation of the City for which its full faith, credit and resources are pledged and are payable from the general and capital improvement funds.

The OWDA loan financed the 2002 reservoir construction project in the amount of \$6,234,116. The retirement of this 4.65 percent interest loan will be made by the capital improvement fund. This loan is scheduled to mature on July 1, 2023.

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The Ohio Public Works Commission (OPWC) loan financed the 1996 wastewater treatment plant improvements in the amount of \$540,000. The retirement of this 0.0 percent interest loan will be made by the capital improvement fund. This loan matured on January 1, 2016.

The OPWC loan financed the 2004 Rock Run Road improvements in the amount of \$76,400. The retirement of this 0.0 percent interest loan will be made by the capital improvement fund with bi-annual payments of \$1,910. This loan is scheduled to mature on July 1, 2024.

The OPWC loan financed the 2005 Crawford/Hicks CSO removal in the amount of 252,849. The retirement of this 0.0 percent interest loan will be made by the capital improvement fund with bi-annual payments of \$6,321. This loan is scheduled to mature on January 1, 2025.

The OPWC loan financed the 2011 project entitled Commerce Drive Storm Drainage improvements in the amount of \$247,119. The retirement of this 0.0 percent interest loan will be made by the capital improvement fund with bi-annual payments of \$4,119. This loan is scheduled to mature on July 1, 2042.

The Capital Improvement Bond, Series 2005 was issued for the purpose of paying the costs of improvements East Wyandot Avenue. This bond is 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 in the capital improvement fund. The interest on this bond is 3 percent - 5 percent and is scheduled to mature in August 2025.

The Fire Truck Bond-Series 2014 financed the purchase of a 2013 Pierce Velocity Chassis fire truck. This bond is 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 in the capital improvement fund. The interest on this bond is 3.25 percent and is scheduled to mature in February 2024.

The OWDA loan financed the new 2010 wastewater treatment and storage tower in the amount of \$16,209,357. The retirement of this 3.31 percent interest loan will be made by the water fund. This loan is scheduled to mature on July 1, 2041.

The OWDA loan financed the 2010 sewer system planning project in the amount of \$170,772. The retirement of this 3.91 percent interest loan will be made by the sewer fund. In June of 2016, this loan was incorporated into a new OWDA loan.

The OWDA loan financed the 2013 long term control plan project in the amount of \$232,964. The retirement of this 3.67 percent interest loan will be made by the sewer fund. In June 2016, this loan was incorporated into a new OWDA loan.

The OWDA loan financed the 2013 waterline project on Warpole Street in the amount of \$533,351. The retirement of this 2.69 percent interest loan will be made by the water fund. This loan is scheduled to mature on January 1, 2043.

The OWDA loan financed the 2013 waterline project on the NE Quadrant and tank painting in the amount of \$1,603,297. The retirement of this 2 percent interest loan will be made by the water fund. This loan is scheduled to mature on July 1, 2034.

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The OWDA loan financed the 2016 sewer separation on various streets in the amount of \$6,753,115. As of December 31, 2016 only \$2,712,666 was disbursed; therefore, no amortization schedule is available. The retirement of this 1.0 percent interest loan will be made by the sewer fund. This loan is scheduled to mature on July 1, 2037.

The OPWC loan financed the 2013 project entitled Elevated tank repainting in the amount of \$500,000. The retirement of this 0.0 percent interest loan will be made by the water fund with bi-annual payments of \$8,333. This loan is scheduled to mature on January 1, 2044.

The OPWC loan financed the various 2013 waterline projects in the amount of \$345,969. The retirement of this 0.0 percent interest loan will be made by the water fund with bi-annual payments of \$5,766. This loan is scheduled to mature on July 1, 2044.

The OPWC loan financed the various 2013 waterline projects in the amount of \$416,822. The retirement of this 0.0 percent interest loan will be made by the water fund with bi-annual payments of \$6,947. This loan is scheduled to mature on July 1, 2044.

The OPWC loan financed the 2016 sewer separation on various streets in the amount of \$900,000. As of December 31, 2016 only \$381,276 was disbursed; therefore, no amortization schedule is available. The retirement of this 0.0 percent interest loan will be made by the sewer fund. This loan is scheduled to mature on January 1, 2037.

Capital leases for governmental activities will be paid from the general fund, special project fund and the capital improvement fund; the business-type activities will be paid from the corresponding sanitation and sewer funds. Compensated absences will be paid from the funds which the employee's salaries are paid, typically the general fund, the water fund, the sewer fund and the sanitation fund. The City pays obligations related to employee compensation from the fund benefitting from their services.

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2016 are as follows:

Year Ending December 31,	OWDA Loans		Governmental Activities OPWC Loans		Bonds		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 361,784	\$ 103,550	\$ 24,699	\$ 0	\$ 64,758	\$ 24,919	\$ 451,241	\$ 128,469
2018	378,803	88,911	24,699	0	66,985	22,544	470,487	111,455
2019	396,621	75,583	24,699	0	70,252	20,073	491,572	95,656
2020	415,278	57,533	24,699	0	73,560	17,445	513,537	74,978
2021	434,813	40,730	24,700	0	75,911	14,670	535,424	55,400
2022-2026	690,868	27,846	96,896	0	292,185	28,016	1,079,949	55,862
2027-2031	0	0	41,185	0	0	0	41,185	0
2032-2036	0	0	41,187	0	0	0	41,187	0
2037-2041	0	0	41,190	0	0	0	41,190	0
2042	0	0	8,239	0	0	0	8,239	0
	<u>\$ 2,678,167</u>	<u>\$ 394,153</u>	<u>\$ 352,193</u>	<u>\$ 0</u>	<u>\$ 643,651</u>	<u>\$ 127,667</u>	<u>\$ 3,674,011</u>	<u>\$ 521,820</u>

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Year Ending December 31,	Business-Type Activities					
	Water		Water		Water	
	OWDA Loans		OPWC Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 444,836	\$ 482,385	\$ 42,093	\$ 0	\$ 486,929	\$ 482,385
2018	458,680	468,541	42,093	0	500,773	468,541
2019	472,965	454,256	42,093	0	515,058	454,256
2020	487,707	439,515	42,093	0	529,800	439,515
2021	502,917	424,303	42,093	0	545,010	424,303
2022-2026	2,760,312	1,875,088	210,465	0	2,970,777	1,875,088
2027-2031	3,220,535	1,415,571	210,465	0	3,431,000	1,415,571
2032-2036	3,510,295	881,661	210,464	0	3,720,759	881,661
2037-2041	3,451,796	294,244	210,465	0	3,662,261	294,244
2042-2045	25,501	516	117,948	0	143,449	516
	<u>\$ 15,335,544</u>	<u>\$ 6,736,080</u>	<u>\$ 1,170,272</u>	<u>\$ 0</u>	<u>\$ 16,505,816</u>	<u>\$ 6,736,080</u>

NOTE 10 -- CAPITAL LEASES

The City has entered into a lease agreement as lessee for financing the acquisition of police cruisers and equipment. These lease agreements qualify as capital leases for accounting purposes (titles transferable at the end of the lease term) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of inception. The costs of these capital leases are included in the governmental. The original cost of assets acquired under capital lease and included in the governmental activities was \$326,872 with accumulated depreciation of \$135,308. 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, 2016:

Year Ending December 31,	Governmental Activities
2017	\$ 75,133
Less Amount Representing Interest	(2,453)
Present Value of Future Minimum Lease Payments	<u>\$ 72,680</u>

NOTE 11 -- DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

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Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

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Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.00 %
Employee	10.00 %
2016 Actual Contribution Rates	
Employer:	
Pension	12.00 %
Post-employment Health Care Benefits	2.00
Total Employer	14.00 %
Employee	10.00 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City’s contractually required contribution was \$285,387 for 2016. Of this amount, \$42,038 is reported as an intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member’s average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

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Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2016 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2016 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$178,965 for 2016. Of this amount \$30,998 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Plan	OPF	Total
Proportionate Share of the Net Pension Liability	\$ 3,060,420	\$ 3,278,872	\$ 6,339,292
Proportion of the Net Pension Liability	0.01766800%	0.05096900%	
Pension Expense	\$ 450,281	\$ 483,872	\$ 934,153

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At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS		
	Traditional Plan	OPF	Total
Deferred Outflows of Resources			
Net Difference between Projected and Actual			
Earnings on Pension Plan Investments	\$ 899,544	\$ 533,675	\$ 1,433,219
Changes in Proportionate Share	36,845	482,470	519,315
City Contributions Subsequent to the Measurement Date	285,387	178,965	464,352
Total Deferred Outflows of Resources	<u>\$ 1,221,776</u>	<u>\$ 1,195,110</u>	<u>\$ 2,416,886</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 59,132	\$ 9,207	\$ 68,339
Total Deferred Inflows of Resources	<u>\$ 59,132</u>	<u>\$ 9,207</u>	<u>\$ 68,339</u>

\$464,352 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS		
Year Ending December 31:	Traditional Plan	OPF	Total
2017	\$ 213,739	\$ 231,718	\$ 445,457
2018	228,121	231,718	459,839
2019	231,831	231,717	463,548
2020	203,566	203,270	406,836
2021	0	91,187	91,187
Thereafter	0	17,328	17,328
	<u>\$ 877,257</u>	<u>\$ 1,006,938</u>	<u>\$ 1,884,195</u>

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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<u>Actuarial Information</u>	<u>Traditional Pension Plan</u>
Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 percent to 10.05 percent, including wage inflation at 3.75 percent
COLA or Ad Hoc COLA	Pre 1/7/2013 Retirees: 3.00 percent simple Post 1/7/2013 Retirees: 3.00 percent simple through 2018, then 2.8 percent simple
Investment Rate of Return	8.00 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other Investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.27 %</u>

Discount Rate The discount rate used to measure the total pension liability was eight percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of eight percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (seven percent) or one-percentage-point higher (nine percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City’s proportionate share of the net pension liability:	\$ 4,875,838	3,060,420	\$ 1,528,989

Changes between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City’s net pension liability is expected to be significant.

Actuarial Assumptions – OPF

OPF’s total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11.00 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent, simple

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2015 are summarized below:

Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	30 Year Expected Real Rate of Return**
Domestic Equity	16.00	4.47 %	7.80 %
Non-US Equity	16.00	4.47	8.00
Core Fixed Income*	20.00	1.62	5.35
Global Inflation Protected*	20.00	1.33	4.73
High Yield	15.00	3.39	7.21
Real Estate	12.00	3.93	7.43
Private Markets	8.00	6.98	10.73
Timber	5.00	4.92	7.35
Master Limited Partnerships	8.00	7.03	10.75
Total	120.00 %		

Note: Assumptions are geometric.

* levered 2x

** Numbers include inflation

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

OPF’s Board of Trustees has incorporated the “risk parity” concept into OPF’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall total portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the total portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City’s proportionate share of the net pension liability:	\$ 4,324,392	\$ 3,278,872	\$ 2,393,212

NOTE 12 -- POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit.

Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2015 CAFR details.

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

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.0 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016 as recommended by OPERS' actuary. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2016 was 4.0 percent.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$47,564, \$44,372 and \$140,238, respectively. For 2016, 85 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OPF. OPF provides health care 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.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

OPF provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement 45.

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

OPF 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 OPF, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OPF's website at www.op-f.org.

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contribution allocated to health care was 0.5 percent of covered payroll from January 1, 2016 through December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OPF, which were allocated to fund post-employment health care benefits, for police and firefighters were \$3,792 and \$742 for the year ended December 31, 2016, \$3,441 and \$689 for the year ended December 31, 2015, and \$51,728 and \$12,393 for the year ended December 31, 2014. 83 percent has been contributed for police and 82 percent has been contributed for firefighters for 2016. The full amount has been contributed for 2015 and 2014.

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

Encumbrances

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. Outstanding encumbrances for other governmental funds were \$3,818.

Contractual Commitments

The City had the following significant commitments at December 31, 2016:

<u>Project</u>	<u>Contract Amount</u>	<u>Expended</u>	<u>Outstanding Commitment</u>
Sewer Separation - Phase 1	\$ 3,011,206	\$ 1,670,302	\$ 1,340,904
Sewer Separation - Phase 2	4,009,348	2,497,505	1,511,843
Total	<u>7,020,554</u>	<u>4,167,807</u>	<u>2,852,747</u>

NOTE 14 -- TRANSFERS

Interfund transfers for the year ended December 31, 2016, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 118,700	\$ 13,034
Capital Improvement Fund	500,961	0
Other Governmental	0	118,700
Water	0	452,693
Sewer	0	17,617
Sanitation	0	17,617
	<u>\$ 619,661</u>	<u>\$ 619,661</u>

City of Upper Sandusky
Wyandot County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2016

In the year ended December 31, 2016, the City made transfers of \$487,927 from the water, sewer, and sanitation funds to the capital improvements fund to subsidize, in part, the Ohio Water Development Authority (OWDA) debt service payments. In the past, OWDA loans were financed by City income tax. A transfer of \$13,034 from the general fund to the capital improvement fund was to assist in debt payment. During 2016, the Upper Sandusky Municipal Court judge signed a Journal Entry and Order to transfer \$118,700 from the special project fund to the general fund.

NOTE 15 -- FUND BALANCE

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

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

	General Fund	Capital Improvements Fund	Other Governmental Funds	Total
Nonspendable for:				
Inventory	\$ 1,271	\$ 0	\$ 45,461	\$ 46,732
Restricted for:				
Capital Projects	0	219,965	0	219,965
Street Maintenance and Repair	0	0	103,180	103,180
Indigent Drivers Fund	0	0	263,832	263,832
Computer Legal Research	0	0	157,347	157,347
CDBG Revolving Loan	0	0	451,999	451,999
Special Projects	0	0	221,917	221,917
Other Purposes	0	0	144,867	144,867
Total Restricted	0	219,965	1,343,142	1,563,107
Committed to:				
Parks and Recreation	0	0	432,017	432,017
Assigned for:				
Subsequent Year Appropriations	145,108	0	0	145,108
Unassigned	1,205,297	0	0	1,205,297
Total Fund Balance	<u>\$ 1,351,676</u>	<u>\$ 219,965</u>	<u>\$ 1,820,620</u>	<u>\$ 3,392,261</u>

Note 16 – Non-compliance

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. During 2016, the City made expenditures without proper certification by the fiscal officer. The City is in the process of implementing purchase orders over these expenditures.

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City of Upper Sandusky
Wyandot County, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Last Three Years (1)

	<u>2016</u>		<u>2015</u>		<u>2014</u>
<i>Ohio Public Employees' Retirement System (OPERS)</i>					
City's Proportion of the Net Pension Liability	0.0176680%		0.0172050%		0.0172050%
City's Proportionate Share of the Net Pension Liability	\$ 3,060,420	\$	2,075,115	\$	2,028,245
City's Covered-Employee Payroll	\$ 2,199,000	\$	2,109,300	\$	2,523,477
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	139.17%		98.38%		80.38%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%		86.45%		86.36%
<i>Ohio Police and Fire Pension Fund (OPF)</i>					
City's Proportion of the Net Pension Liability	0.0509690%		0.0393609%		0.0393609%
City's Proportionate Share of the Net Pension Liability	\$ 3,278,872	\$	2,039,059	\$	1,916,999
City's Covered-Employee Payroll	\$ 825,885	\$	949,332	\$	827,098
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	397.01%		214.79%		231.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%		72.20%		73.00%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

City of Upper Sandusky
Wyandot County, Ohio
Required Supplementary Information
Schedule of City Contributions
Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Ohio Public Employees' Retirement System (OPERS)</i>				
Contractually Required Contribution	\$ 285,387	\$ 263,880	\$ 253,116	\$ 328,052
Contributions in Relation to the Contractually Required Contribution	<u>(285,387)</u>	<u>(263,880)</u>	<u>(253,116)</u>	<u>(328,052)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's covered-employee payroll	\$ 2,378,225	\$ 2,199,000	\$ 2,109,300	\$ 2,523,477
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Ohio Police and Fire Pension Fund (OPF)</i>				
Contractually Required Contribution	\$ 178,965	\$ 163,115	\$ 164,723	\$ 137,644
Contributions in relation to the contractually required contribution	<u>(178,965)</u>	<u>(163,115)</u>	<u>(164,723)</u>	<u>(137,644)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's covered-employee payroll	\$ 906,791	\$ 825,885	\$ 949,332	\$ 827,098
Contributions as a percentage of covered-employee payroll	19.74%	19.75%	17.35%	16.64%

(n/a) Information prior to 2013 is not available.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
\$ 144,330	\$ 129,520	\$ 106,632	\$ 93,657	\$ 140,051	\$ 131,745
<u>(144,330)</u>	<u>(129,520)</u>	<u>(106,632)</u>	<u>(93,657)</u>	<u>(140,051)</u>	<u>(131,745)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,078,453	\$ 943,821	\$ 790,367	\$ 694,323	\$ 1,041,817	\$ 980,030
13.38%	13.72%	13.49%	13.49%	13.44%	13.44%

July 19, 2017

To the Honorable Mayor and City Council
City of Upper Sandusky
Wyandot County, Ohio
119 North 7th Street
Upper Sandusky, OH 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, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Upper Sandusky, Wyandot County, Ohio (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 19, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Responses* as item 2016-001.

The City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Responses*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

City of Upper Sandusky
Wyandot County, Ohio
Schedule of Findings and Responses
For the Year Ended December 31, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number: 2016-001

Material Non-Compliance - Fiscal Officer Certification

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: Several City purchases of goods and services lack supporting purchase orders.

Cause: Under 5705.41(D)(2), the City had previously by resolution 63-12 established an exemption for all purchases of less than \$1,000 from the requirements of 5705.41(D)(1). 5705.41(D)(2) only grants authority to a board of county commissioners to adopt such a resolution.

City of Upper Sandusky
Wyandot County, Ohio
Schedule of Findings and Responses(Continued)
For the Year Ended December 31, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)
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Finding Number: 2016-001 (Continued)

Material Non-Compliance - Fiscal Officer Certification

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 ensure that purchase commitments receive prior approval.

Recommendation: We recommend the City implement training to ensure all employees with purchasing authorization authority are in accordance with Ohio revised code. In addition, with changes in procedure, these employees should be provided copies of the required forms with the established procedures outlined. All employees with purchasing responsibilities are to create a requisition prior to all purchases and submit the form to the City Auditor for creation of a purchase order prior to ordering of goods or services.

Management's Response: By ordinance, we have rescinded our exemption of purchases less than \$1,000 from fiscal officer certification. We are in the process of reviewing our internal control process and take additional steps to educate and inform the appropriate individuals to ensure our procedures and Ohio Revised Code are followed.

City of Upper Sandusky
Wyandot County, Ohio
Schedule of Prior Audit Findings
For the Year Ended December 31, 2016

Finding Number	Finding Summary	Fully Corrected?	Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2015-001	Ohio Revised Code Section 5705.41(D): Expenditures without certificate from fiscal officer	No	Repeated as Finding 2016-001. The City adopted an ordinance rescinding the exemption of purchases less than \$1,000 from fiscal officer certification. The City is in the process of educating and informing appropriate individuals to ensure the City's procedures and Ohio Revised Code are followed.



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
OCTOBER 3, 2017**