

City of Sandusky

Sanilac County, Michigan

**Annual Financial Statements
and
Auditors' Report**

February 28, 2011

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City of Sandusky
List of Elected and Appointed Officials
February 28, 2011

City Council

Thomas Lukshaitis	Mayor
Steve Polewach	Councilperson
Larry Mitchell	Councilperson
Douglas Guibord	Councilperson
Virginia Bissett	Councilperson
Sandra Barr	Councilperson
Marguerite McNiven	Councilperson

Other Officers and Officials

Paul Cowley	City Manager
Laurie Thompson	City Clerk
Barbara Mitchell Keith Phillips (deceased)	Treasurer



3149 Main Street #4
Marlette, MI 48453
Phone (989) 635-7518
Fax (989) 635-3226

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Sandusky
Sandusky, Michigan

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 City of Sandusky as of and for the year ended February 28, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Sandusky as of February 28, 2011 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2011 on our consideration of the City of Sandusky 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sandusky's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Marlette, Michigan
July 1, 2011

City of Sandusky
Management's Discussion and Analysis
February 28, 2011

Introduction

Our discussion and analysis of City of Sandusky, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended February 28, 2011. It should be read in conjunction with the City's financial statements, which begin on page 4-1.

This annual report consists of a series of financial statements. The Statement of Net Assets on page 4-1 and the Statement of Activities on page 4-2 provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 4-5. For governmental activities, these statements explain how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The City's combined net assets increased 11% from a year ago – increasing from \$12.7 million to \$14.1 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$1.1 million during the year. The business-type activities experienced approximately \$0.3 million increase in net assets.

City of Sandusky
Management's Discussion and Analysis
February 28, 2011

Following is an analysis of the major components of the net assets of the City as of February 28, 2011.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets						
Other assets	\$ 4,002,263	\$ 3,654,665	\$ 2,067,267	\$ 1,715,624	\$ 6,069,530	\$ 5,370,289
Capital assets	<u>4,190,783</u>	<u>3,454,191</u>	<u>12,029,134</u>	<u>12,368,944</u>	<u>16,219,917</u>	<u>15,823,135</u>
Total assets	<u>8,193,046</u>	<u>7,108,856</u>	<u>14,096,401</u>	<u>14,084,568</u>	<u>22,289,447</u>	<u>21,193,424</u>
Liabilities						
Other liabilities	85,664	79,234	160,694	180,214	246,358	259,448
Noncurrent liabilities	<u>666,945</u>	<u>686,160</u>	<u>7,279,809</u>	<u>7,527,748</u>	<u>7,946,754</u>	<u>8,213,908</u>
Total liabilities	<u>752,609</u>	<u>765,394</u>	<u>7,440,503</u>	<u>7,707,962</u>	<u>8,193,112</u>	<u>8,473,356</u>
Net assets						
Invested in capital assets - Net of related debt	3,679,767	2,887,488	4,819,335	5,008,280	8,499,102	7,895,768
Restricted	74,096	74,144	768,703	590,233	842,799	664,377
Unrestricted	<u>3,686,574</u>	<u>3,381,830</u>	<u>1,067,860</u>	<u>778,093</u>	<u>4,754,434</u>	<u>4,159,923</u>
Total net assets	<u>\$ 7,440,437</u>	<u>\$ 6,343,462</u>	<u>\$ 6,655,898</u>	<u>\$ 6,376,606</u>	<u>\$ 14,096,335</u>	<u>\$ 12,720,068</u>

City of Sandusky
Management's Discussion and Analysis
February 28, 2011

The following table shows the changes in net assets as of the current date.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program revenues						
Charges for services	\$ 362,901	\$ 362,150	\$ 1,520,076	\$ 1,406,620	\$ 1,882,977	\$ 1,768,770
Operating grants and contributions	246,383	248,403	-	-	246,383	248,403
Capital grants and contributions	941,545	364,161	6,600	6,600	948,145	370,761
General revenues						
Property taxes	1,267,615	1,357,823	-	-	1,267,615	1,357,823
State shared revenue	293,808	248,363	-	-	293,808	248,363
Unrestricted investment income	10,836	11,745	4,186	4,328	15,022	16,073
Gain on sale of capital assets	130,457	36,014	-	-	130,457	36,014
Miscellaneous	19,316	46,147	84,817	31,201	104,133	77,348
Total revenues	3,272,861	2,674,806	1,615,679	1,448,749	4,888,540	4,123,555
Program expenses						
General government	592,083	418,518	-	-	592,083	418,518
Public safety	564,203	636,511	-	-	564,203	636,511
Public works	683,513	639,659	-	-	683,513	639,659
Health and welfare	249,258	296,259	-	-	249,258	296,259
Community and economic	177	513	-	-	177	513
Recreation and culture	62,072	92,027	-	-	62,072	92,027
Interest on long-term debt	24,580	36,849	-	-	24,580	36,849
Sewer	-	-	953,344	1,024,168	953,344	1,024,168
Water	-	-	383,043	452,982	383,043	452,982
Total expenses	2,175,886	2,120,336	1,336,387	1,477,150	3,512,273	3,597,486
Change in net assets	\$ 1,096,975	\$ 554,470	\$ 279,292	\$ (28,401)	\$ 1,376,267	\$ 526,069

City of Sandusky
Management's Discussion and Analysis
February 28, 2011

Governmental Activities

The City's total governmental activities revenues were \$3.3 million. This is a 22% increase over last year. The increase is primarily due to the sale of the fire hall and receipt of state funds for construction of Campbell road and construction at the City's airport.

The City's total governmental activities expenses were \$2.2 million. This is a 3% increase over last year.

Business-type Activities

The City's total business-type activities revenues were \$1.6 million. This is an 11% increase over last year.

The City's total business-type activities expenses were \$1.3 million. This is a 10% decrease over last year.

The sewer fund operations experienced a decrease in personnel expenditures of approximately \$64,000 and increased revenues of \$70,000 in customer fees and \$26,000 in leachate revenue. There were no major changes to sewer rates and no major sewer system improvement projects started in the current year. There are no major changes in sewer rates anticipated in the next budget year.

The water fund operations experienced decreases in personnel expenditures of approximately \$35,000, a decrease in repair and maintenance of approximately \$14,000 and a decrease in contractual labor of \$12,000. An increase in revenue is attributed to \$43,000 increase in customer fees and \$6,000 revenue from water tower rental. There were no major changes to water rates and no major water system improvement projects started in the current year. There are no major changes in water rates anticipated in the next budget year.

The City's Funds

Our analysis of the City's major funds begins on page 4-4, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as water and sewer service, roadwork, storm sewers and sidewalks. The City's major funds for 2010-2011 include the General, Major Street, Local Street, Senior Citizens Housing, Airport, Sewer and Water Funds.

The General Fund pays for most of the City's governmental services and is financed by the general operating millage and state revenue sharing. The most significant services are police protection, which incurred expenditures of \$425,993 in 2010-2011. There are no major changes in revenue or projects anticipated in the next year budget.

The Major Street Fund is funded by state and local revenue provided to cover maintenance costs associated with the major streets within the City. Construction is planned in the next year but specifics are not finalized.

City of Sandusky
Management's Discussion and Analysis
February 28, 2011

The Local Street Fund is funded by state and local revenue provided to cover maintenance costs associated with the local streets within the City.

The Senior Citizens Housing Fund is funded by federal grants and rental income from residents.

The Airport Fund is funded by local revenue and user fees to cover the maintenance cost of the airport. State funds were received in the current year for construction projects.

The Sewer and Water Funds are funded by user fees to cover operations, maintenance and debt for the sewage disposal and water supply systems.

Capital Asset and Debt Administration

At the end of fiscal year 2010-2011, the City had \$16,219,917 in a broad range of capital assets, including buildings, police equipment and water and sewer lines.

The City also has governmental activity long-term debt of \$511,016 in installment purchase agreements, and \$104,481 in compensated absences. Debt attributable to business-type activities includes \$7,209,799 in bonds payable and \$47,271 in compensated absences.

General Fund Budgetary Highlights

Over the course of the year, the City Council and City Administration monitor and amend the budget to account for unanticipated events during the year. There are no significant changes to report.

Economic Factors and Next Year's Budgets and Rates

The State's economy continues to be an issue. The 2011-2012 budget was put together keeping in mind lower revenues and inflationary increases. Sewer and water rates are evaluated on an annual basis to determine the need for rates increases.

Contacting the Government

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the City's Finance Director.

City of Sandusky
Statement of Net Assets
February 28, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,617,741	\$ 1,261,282	\$ 3,879,023
Receivables			
Taxes	1,290,702	-	1,290,702
Customers	26,626	390,976	417,602
Due from other units of government	115,973	-	115,973
Internal balances	(92,629)	92,629	-
Prepaid items	43,850	-	43,850
Restricted assets			
Cash and cash equivalents	-	322,380	322,380
Capital assets not being depreciated	692,258	-	692,258
Capital assets, net of accumulated depreciation	<u>3,498,525</u>	<u>12,029,134</u>	<u>15,527,659</u>
 Total assets	 <u>8,193,046</u>	 <u>14,096,401</u>	 <u>22,289,447</u>
Liabilities			
Accounts payable	35,858	16,571	52,429
Accrued and other liabilities	49,806	144,123	193,929
Noncurrent liabilities			
Due within one year	79,365	160,000	239,365
Due in more than one year	536,132	7,097,070	7,633,202
Other post employment benefit obligation	<u>51,448</u>	<u>22,739</u>	<u>74,187</u>
 Total liabilities	 <u>752,609</u>	 <u>7,440,503</u>	 <u>8,193,112</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Net Assets
February 28, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net assets			
Invested in capital assets, net of related debt	\$ 3,679,767	\$ 4,819,335	\$ 8,499,102
Restricted for:			
Drug forfeiture	2,868	-	2,868
Debt	-	322,380	322,380
Perpetual care	71,228	-	71,228
Bond redemption	-	332,028	332,028
Repair, replacement and improvement	-	114,295	114,295
Unrestricted	<u>3,686,574</u>	<u>1,067,860</u>	<u>4,754,434</u>
Total net assets	<u>\$ 7,440,437</u>	<u>\$ 6,655,898</u>	<u>\$ 14,096,335</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Activities
Year Ended February 28, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary government							
Governmental activities							
General government	\$ 592,083	\$ 28,755	\$ -	\$ -	\$ (563,328)	\$ -	\$ (563,328)
Public safety	564,203	10,941	-	-	(553,262)	-	(553,262)
Public works	683,513	143,021	9,352	941,500	410,360	-	410,360
Health and welfare	249,258	163,304	235,454	-	149,500	-	149,500
Community and economic development	177	175	-	-	(2)	-	(2)
Recreation and culture	62,072	16,705	1,577	45	(43,745)	-	(43,745)
Interest on long-term debt	24,580	-	-	-	(24,580)	-	(24,580)
Total governmental activities	<u>2,175,886</u>	<u>362,901</u>	<u>246,383</u>	<u>941,545</u>	<u>(625,057)</u>	<u>-</u>	<u>(625,057)</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Activities
Year Ended February 28, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Business-type activities							
Sewer	\$ 953,344	\$ 921,146	\$ -	\$ -	\$ -	\$ (32,198)	\$ (32,198)
Water	383,043	598,930	-	6,600	-	222,487	222,487
Total business-type activities	<u>1,336,387</u>	<u>1,520,076</u>	<u>-</u>	<u>6,600</u>	<u>-</u>	<u>190,289</u>	<u>190,289</u>
Total primary government	<u>\$ 3,512,273</u>	<u>\$ 1,882,977</u>	<u>\$ 246,383</u>	<u>\$ 948,145</u>	<u>(625,057)</u>	<u>190,289</u>	<u>(434,768)</u>
General revenues							
Property taxes					1,267,615	-	1,267,615
State shared revenue					293,808	-	293,808
Unrestricted investment earnings					10,836	4,186	15,022
Gain on sale of capital assets					130,457	-	130,457
Miscellaneous					19,316	84,817	104,133
Total general revenues					<u>1,722,032</u>	<u>89,003</u>	<u>1,811,035</u>
Change in net assets					1,096,975	279,292	1,376,267
Net assets - beginning of year					<u>6,343,462</u>	<u>6,376,606</u>	<u>12,720,068</u>
Net assets - end of year					<u>\$ 7,440,437</u>	<u>\$ 6,655,898</u>	<u>\$ 14,096,335</u>

See Accompanying Notes to Financial Statements

**City of Sandusky
Governmental Funds
Balance Sheet
February 28, 2011**

	Special Revenue Funds					Other Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street	Senior Citizens Housing	Airport		
Assets							
Cash and cash equivalents	\$ 1,410,430	\$ 189,924	\$ 321,735	\$ 182,287	\$ 18,169	\$ 71,228	\$ 2,193,773
Receivables							
Taxes	136,179	-	-	-	-	-	136,179
Customers	26,626	-	-	-	-	-	26,626
Due from other units of government	83,173	23,100	9,700	-	-	-	115,973
Due from other funds	<u>1,129,464</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,129,464</u>
Total assets	<u><u>\$ 2,785,872</u></u>	<u><u>\$ 213,024</u></u>	<u><u>\$ 331,435</u></u>	<u><u>\$ 182,287</u></u>	<u><u>\$ 18,169</u></u>	<u><u>\$ 71,228</u></u>	<u><u>\$ 3,602,015</u></u>
Liabilities							
Accounts payable	\$ 14,795	\$ 1,247	\$ 2,524	\$ 10,427	\$ 2,753	\$ -	\$ 31,746
Accrued and other liabilities	20,125	2,055	1,949	11,059	322	-	35,510
Deferred revenue	<u>1,271,538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,271,538</u>
Total liabilities	<u><u>1,306,458</u></u>	<u><u>3,302</u></u>	<u><u>4,473</u></u>	<u><u>21,486</u></u>	<u><u>3,075</u></u>	<u><u>-</u></u>	<u><u>1,338,794</u></u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Balance Sheet
February 28, 2011

	Special Revenue Funds					Other Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street	Senior Citizens Housing	Airport		
Fund balances							
Reserved for:							
Drug forfeiture	\$ 2,868	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,868
Perpetual care	-	-	-	-	-	71,228	71,228
Unreserved							
Designated for:							
Cemetery	21,012	-	-	-	-	-	21,012
City Hall	30,448	-	-	-	-	-	30,448
Fire Hall	152,142	-	-	-	-	-	152,142
Industrial Park	38,437	-	-	-	-	-	38,437
Recreation	53,552	-	-	-	-	-	53,552
Police	29,900	-	-	-	-	-	29,900
Senior citizens building	154,096	-	-	-	-	-	154,096
Unreserved, reported in:							
General fund	996,959	-	-	-	-	-	996,959
Special revenue funds	-	209,722	326,962	160,801	15,094	-	712,579
Total fund balances	<u>1,479,414</u>	<u>209,722</u>	<u>326,962</u>	<u>160,801</u>	<u>15,094</u>	<u>71,228</u>	<u>2,263,221</u>
Total liabilities and fund balances	<u><u>\$2,785,872</u></u>	<u><u>\$ 213,024</u></u>	<u><u>\$ 331,435</u></u>	<u><u>\$ 182,287</u></u>	<u><u>\$ 18,169</u></u>	<u><u>\$ 71,228</u></u>	<u><u>\$ 3,602,015</u></u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 28, 2011

Total fund balances for governmental funds	\$ 2,263,221
Total net assets for governmental activities in the statement of net assets is different because:	
Prepaid expenses used in governmental activities are reported on the purchase method in the funds.	43,850
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,992,275
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	1,271,538
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(14,000)
Compensated absences	(104,481)
Net other post employment obligation	(51,448)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(511,016)
Internal service funds are included as part of governmental activities.	<u>550,498</u>
Net assets of governmental activities	<u>\$ 7,440,437</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended February 28, 2011

	Special Revenue Funds					Other Governmental Funds	Governmental Funds Total
	General	Major Street	Local Street	Senior Citizens Housing	Airport		
Revenues							
Taxes	\$ 1,364,917	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,364,917
Licenses and permits	3,527	-	-	-	-	-	3,527
Federal grants	-	293,714	-	235,454	244,665	-	773,833
State revenue sharing	244,440	-	-	-	-	-	244,440
Other state grants	47,189	167,253	54,444	-	49,368	-	318,254
Local contributions	-	-	143,587	-	-	-	143,587
Charges for services	142,628	-	-	-	11,905	-	154,533
Fines and forfeitures	450	-	-	-	-	-	450
Interest income	7,206	799	1,627	278	78	40	10,028
Rental income	11,844	-	-	164,881	25,915	-	202,640
Other revenue	19,052	45	-	133	3,459	-	22,689
Total revenues	1,841,253	461,811	199,658	400,746	335,390	40	3,238,898
Expenditures							
Current							
General government	435,473	-	-	-	-	-	435,473
Public safety	492,453	-	-	-	-	-	492,453
Public works	355,060	103,462	170,776	-	49,862	-	679,160
Health and welfare	-	-	-	249,258	-	-	249,258
Community and economic development	177	-	-	-	-	-	177
Recreation and culture	62,390	-	-	-	-	-	62,390
Other functions	15,000	-	-	-	-	-	15,000
Capital outlay	79,741	469,996	184,645	-	301,428	-	1,035,810
Debt service							
Principal retirement	75,056	-	-	-	2,078	-	77,134
Interest and fiscal charges	25,385	-	-	-	195	-	25,580
Total expenditures	1,540,735	573,458	355,421	249,258	353,563	-	3,072,435

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended February 28, 2011

	Special Revenue Funds					Other Governmental Funds	Governmental Funds Total
	General	Major Street	Local Street	Senior Citizens Housing	Airport		
Excess (deficiency) of revenues over expenditures	\$ 300,518	\$ (111,647)	\$ (155,763)	\$ 151,488	\$ (18,173)	\$ 40	\$ 166,463
Other financing sources (uses)							
Transfers in	605	-	250,000	-	16,788	515	267,908
Transfers out	(267,303)	-	-	-	-	(605)	(267,908)
Issuance of debt	21,194	-	-	-	-	-	21,194
Sale of fixed assets	144,026	-	-	-	-	-	144,026
Total other financing sources and uses	(101,478)	-	250,000	-	16,788	(90)	165,220
Net change in fund balance	199,040	(111,647)	94,237	151,488	(1,385)	(50)	331,683
Fund balance - beginning of year	1,280,374	321,369	232,725	9,313	16,479	71,278	1,931,538
Fund balance - end of year	\$ 1,479,414	\$ 209,722	\$ 326,962	\$ 160,801	\$ 15,094	\$ 71,228	\$ 2,263,221

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended February 28, 2011

Net change in fund balances - total governmental funds	\$ 331,683
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report inventory purchases and prepaid items as expenditures. However in the statement of activities purchases are recognized as inventory and expensed when consumed.	43,850
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 and reported as depreciation expense.	
Depreciation expense	(193,918)
Capital outlay	971,737
Sale of capital assets	(13,569)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	(97,302)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	1,000
Compensated absences	(9,522)
Net other post employment obligation	(26,950)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Debt issued	(21,194)
Repayments of long-term debt	76,881
Internal service funds are also included as governmental activities	34,279
Change in net assets of governmental activities	\$ 1,096,975

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 28, 2011

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 776,984	\$ 484,298	\$ 1,261,282	\$ 423,968
Receivables				
Customers	234,262	156,714	390,976	-
Due from other funds	17,992	26,169	44,161	-
Total current assets	1,029,238	667,181	1,696,419	423,968
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	26,072	296,308	322,380	-
Capital assets, net of accumulated depreciation	9,085,925	2,943,209	12,029,134	198,508
Total noncurrent assets	9,111,997	3,239,517	12,351,514	198,508
Total assets	10,141,235	3,906,698	14,047,933	622,476
Liabilities				
Current liabilities				
Accounts payable	12,075	4,496	16,571	4,112
Accrued and other liabilities	109,591	34,532	144,123	296
Due to other funds	19,102	-	19,102	-
Current portion of noncurrent liabilities	65,000	95,000	160,000	-
Total current liabilities	205,768	134,028	339,796	4,408

See Accompanying Notes to Financial Statements

**City of Sandusky
Proprietary Funds
Statement of Net Assets
February 28, 2011**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Noncurrent liabilities				
Current liabilities payable from restricted assets				
Long-term debt net of current portion	\$ 5,017,933	\$ 2,079,137	\$ 7,097,070	\$ -
Other post employment benefit obligation	18,573	4,166	22,739	-
Total noncurrent liabilities	5,036,506	2,083,303	7,119,809	-
Total liabilities	5,242,274	2,217,331	7,459,605	4,408
Net assets				
Invested in capital assets, net of related debt	4,031,925	787,410	4,819,335	198,508
Restricted for:				
Debt	26,072	296,308	322,380	-
Bond redemption	262,800	69,228	332,028	-
Repair, replacement and improvement	-	114,295	114,295	-
Unrestricted	578,164	422,126	1,000,290	419,560
Total net assets	\$ 4,898,961	\$ 1,689,367	6,588,328	\$ 618,068
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			67,570	
Net assets of business-type activities			\$ 6,655,898	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended February 28, 2011

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Operating revenue				
Customer fees	\$ 917,521	\$ 598,930	\$ 1,516,451	\$ -
Billings to other funds	-	-	-	143,599
Connection fees	3,625	-	3,625	-
Other revenue	<u>70,034</u>	<u>14,783</u>	<u>84,817</u>	<u>2,530</u>
 Total operating revenue	 <u>991,180</u>	 <u>613,713</u>	 <u>1,604,893</u>	 <u>146,129</u>
 Operating expenses				
Personnel services	288,665	93,936	382,601	23,490
Supplies	32,084	14,050	46,134	21,059
Contractual services	19,299	3,415	22,714	625
Utilities	103,213	36,379	139,592	-
Repairs and maintenance	19,891	19,896	39,787	15,534
Other expenses	17,034	30,514	47,548	11,211
Depreciation	<u>262,242</u>	<u>84,661</u>	<u>346,903</u>	<u>34,458</u>
 Total operating expenses	 <u>742,428</u>	 <u>282,851</u>	 <u>1,025,279</u>	 <u>106,377</u>
 Operating income	 <u>248,752</u>	 <u>330,862</u>	 <u>579,614</u>	 <u>39,752</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended February 28, 2011

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Nonoperating revenue (expenses)				
Interest income	\$ 2,493	\$ 1,693	\$ 4,186	\$ 808
Interest expense	(211,035)	(106,354)	(317,389)	-
	(208,542)	(104,661)	(313,203)	808
Income (loss) before contributions	40,210	226,201	266,411	40,560
Capital contributions - other	-	6,600	6,600	-
Change in net assets	40,210	232,801	273,011	40,560
Net assets - beginning of year	4,858,751	1,456,566		577,508
Net assets - end of year	\$ 4,898,961	\$ 1,689,367		\$ 618,068
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			6,281	
Change in net assets of business-type activities			\$ 279,292	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 28, 2011

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Cash flows from operating activities				
Receipts from customers	\$ 995,514	\$ 611,120	\$ 1,606,634	\$ 2,530
Receipts from interfund users	-	-	-	143,599
Payments to other funds	458	444	902	-
Payments to suppliers	(206,837)	(85,699)	(292,536)	(46,512)
Payments to employees	(288,665)	(93,936)	(382,601)	(23,490)
Payments for interfund services used	(434)	(22,325)	(22,759)	-
Net cash provided by operating activities	<u>500,036</u>	<u>409,604</u>	<u>909,640</u>	<u>76,127</u>
Cash flows from capital and related financing activities				
Capital contributions	-	6,600	6,600	-
Purchases/construction of capital assets	-	(7,093)	(7,093)	(6,799)
Principal and interest paid on long-term debt	(369,256)	(196,072)	(565,328)	(1)
Net cash used by capital and related financing activities	<u>(369,256)</u>	<u>(196,565)</u>	<u>(565,821)</u>	<u>(6,800)</u>
Cash flows from investing activities				
Interest received	<u>2,493</u>	<u>1,693</u>	<u>4,186</u>	<u>808</u>
Net change in cash and cash equivalents	133,273	214,732	348,005	70,135
Cash and cash equivalents - beginning of year	<u>669,783</u>	<u>565,874</u>	<u>1,235,657</u>	<u>353,833</u>
Cash and cash equivalents - end of year	<u>\$ 803,056</u>	<u>\$ 780,606</u>	<u>\$ 1,583,662</u>	<u>\$ 423,968</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 28, 2011

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 248,752	\$ 330,862	\$ 579,614	\$ 39,752
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	262,242	84,661	346,903	34,458
Changes in assets and liabilities				
Receivables (net)	4,334	(2,593)	1,741	-
Due from other funds	458	444	902	-
Accounts payable	(14,857)	(2,271)	(17,128)	1,898
Accrued and other liabilities	(893)	(1,499)	(2,392)	19
Net cash provided by operating activities	<u>\$ 500,036</u>	<u>\$ 409,604</u>	<u>\$ 909,640</u>	<u>\$ 76,127</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Net Assets
February 28, 2011

	Employee Sick Pay Trust Fund	Pension Trust Fund	Employee Health Care Trust Fund	Total Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets					
Cash and cash equivalents	\$ 129,898	\$ -	\$ 90,493	\$ 220,391	\$ 1,151,033
Investments	-	51,684	-	51,684	-
Accrued interest and other	-	-	5	5	-
Total assets	<u>129,898</u>	<u>51,684</u>	<u>90,498</u>	<u>272,080</u>	<u>1,151,033</u>
Liabilities					
Due to other funds	22,478	-	-	22,478	1,132,045
Due to other units of government	-	-	-	-	18,988
Total liabilities	<u>22,478</u>	<u>-</u>	<u>-</u>	<u>22,478</u>	<u>\$ 1,151,033</u>
Net assets					
Held in trust for pension benefits and other purposes	<u>\$ 107,420</u>	<u>\$ 51,684</u>	<u>\$ 90,498</u>	<u>\$ 249,602</u>	

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Changes in Net Assets
Year Ended February 28, 2011

	Employee Sick Pay Trust Fund	Pension Trust Fund	Employee Health Care Trust Fund	Total Pension and Other Employee Benefit Trust Funds
Additions				
Contributions				
Employer	\$ 10,650	\$ -	\$ 15,000	\$ 25,650
Investment earnings				
Investment income	<u>81</u>	<u>5,319</u>	<u>42</u>	<u>5,442</u>
Total additions	<u>10,731</u>	<u>5,319</u>	<u>15,042</u>	<u>31,092</u>
Deductions				
Benefits	<u>45,351</u>	<u>-</u>	<u>-</u>	<u>45,351</u>
Change in net assets	(34,620)	5,319	15,042	(14,259)
Net assets - beginning of year	<u>142,040</u>	<u>46,365</u>	<u>75,456</u>	<u>263,861</u>
Net assets - end of year	<u>\$ 107,420</u>	<u>\$ 51,684</u>	<u>\$ 90,498</u>	<u>\$ 249,602</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Notes to Financial Statements
February 28, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

City of Sandusky is governed by an elected seven-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The City has no component units.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other

City of Sandusky
Notes to Financial Statements
February 28, 2011

revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The Senior Citizens Housing Fund accounts for the operation of the senior citizens housing unit owned by the City.

The Airport Fund accounts for the operation of the airport owned by the City.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The Permanent Fund accounts for perpetual cemetery resources and expenditures.

The Debt Service Funds accounts for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

Internal Service Funds accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

The Pension and Other Employee Benefit Trust Funds account for the activities of employee benefit plans that accumulate resources for sick pay, pension and other post-employment benefit (health care) payments for qualified employees.

The Agency Fund accounts for property tax and other deposits collected on behalf of other units.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this

City of Sandusky
Notes to Financial Statements
February 28, 2011

general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price.

Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2009 taxable valuation of the government totaled \$71,528,973, on which ad valorem taxes consisted of 19 mills for operating purposes. This resulted in \$1,359,050 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the City follows the purchase method, and they therefore are expensed when paid in both entity-wide and fund financial statements.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted cash and cash equivalents.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets for land, site

City of Sandusky
Notes to Financial Statements
February 28, 2011

improvements, buildings, and building improvements of more than \$10,000 and equipment with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The City began recording governmental infrastructure constructed on or after March 1, 2003.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	25 to 50 years
Building improvements	5 to 25 years
Water and sewer lines	40 years
Vehicles	3 to 10 years
Machinery and equipment	5 to 20 years

Compensated absences – In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payments for unused sick leave under formulas and conditions specified in the contract. The vacation policy no longer allows for the carryover of unused days. Days accumulated prior to the change in policy were capped and continue to be available. The dollar amount for vested rights has been accrued in the governmental-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term

debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The new standard changes fund balance classifications to depict the relative strength of the spending constraints and clarifies the definitions of various governmental fund types. The new definition of special revenue funds will affect which activities the City can report in special revenue funds. This statement is effective for the year ending February 29, 2012.

City of Sandusky
Notes to Financial Statements
February 28, 2011

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to February 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following March 1. Public hearings are held to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. After the budget is adopted, any revisions to revenues or expenditures must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Airport			
Capital outlay	\$ 8,000	\$ 301,428	\$ 293,428

All transactions occurring under the Airport Improvement Program grants were handled by Michigan Department of Transportation (MDOT). The City only receives correspondence at their fiscal year end to record the activity for the year. This is the reason for the budget to actual variance for this expenditure.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Investments	Restricted Cash and Cash Equivalents	Total
Governmental activities	\$ 2,617,741	\$ -	\$ -	\$ 2,617,741
Business-type activities	<u>1,261,282</u>	<u>-</u>	<u>322,380</u>	<u>1,583,662</u>
Total primary government	3,879,023	-	322,380	4,201,403
Fiduciary funds	<u>1,371,424</u>	<u>51,684</u>	<u>-</u>	<u>1,423,108</u>
Total	<u>\$ 5,250,447</u>	<u>\$ 51,684</u>	<u>\$ 322,380</u>	<u>\$ 5,624,511</u>

The breakdown between deposits and investments for the City is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 2,949,410	\$ 1,151,033
Investments in securities, mutual funds and similar vehicles	1,251,493	272,075
Petty cash and cash on hand	<u>500</u>	<u>-</u>
	<u>\$ 4,201,403</u>	<u>\$ 1,423,108</u>

City of Sandusky
Notes to Financial Statements
February 28, 2011

As of year end, the government had the following investments:

Investment	Fair Value	Maturities	Rating
American Life Annuity	\$ 8,741		Unrated
DWS Balanced Fund A	6,676	Daily	Unrated
DWS High Income Fund A	36,267	Daily	Unrated
Chase Money Market Fund	<u>1,471,884</u>	Daily	Unrated
	<u>\$ 1,523,568</u>		

The DWS and American Life Annuity investments are held in a pension plan administered by Midwest Pension Actuaries, Inc. All other investments are held in JP Morgan Chase Michigan Governmental Money Market Funds.

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes and the government’s investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the government’s deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 1,280,754 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension trust fund is held by an outside party and is insured.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
Property taxes	\$ 1,271,538

City of Sandusky
Notes to Financial Statements
February 28, 2011

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 688,873	\$ 9,985	\$ 6,600	\$ 692,258
Construction in progress	31,420	-	31,420	-
Total capital assets not being depreciated	<u>720,293</u>	<u>9,985</u>	<u>38,020</u>	<u>692,258</u>
Capital assets being depreciated				
Land improvements	391,153	268,875	-	660,028
Infrastructure	1,208,430	696,953	-	1,905,383
Buildings, additions and improvements	1,266,666	6,150	9,650	1,263,166
Machinery and equipment	671,386	6,799	-	678,185
Vehicles	336,967	21,194	-	358,161
Total capital assets being depreciated	<u>3,874,602</u>	<u>999,971</u>	<u>9,650</u>	<u>4,864,923</u>
Less accumulated depreciation for				
Land improvements	64,212	26,584	-	90,796
Infrastructure	168,536	100,356	-	268,892
Buildings, additions and improvements	138,528	51,149	2,682	186,995
Machinery and equipment	451,155	42,443	-	493,598
Vehicles	318,273	7,844	-	326,117
Total accumulated depreciation	<u>1,140,704</u>	<u>228,376</u>	<u>2,682</u>	<u>1,366,398</u>
Net capital assets being depreciated	<u>2,733,898</u>	<u>771,595</u>	<u>6,968</u>	<u>3,498,525</u>
Governmental activities capital assets, net	<u>\$ 3,454,191</u>	<u>\$ 781,580</u>	<u>\$ 44,988</u>	<u>\$ 4,190,783</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets being depreciated				
Machinery and equipment	\$ 341,354	\$ -	\$ -	\$ 341,354
Vehicles	6,268	-	-	6,268
Water system	3,877,462	7,093	-	3,884,555
Sewer system	<u>12,142,512</u>	<u>-</u>	<u>-</u>	<u>12,142,512</u>
Total capital assets being depreciated	<u>16,367,596</u>	<u>7,093</u>	<u>-</u>	<u>16,374,689</u>
Less accumulated depreciation for				
Machinery and equipment	263,429	16,799	-	280,228
Vehicles	6,268	-	-	6,268
Water system	856,685	84,661	-	941,346
Sewer system	<u>2,872,270</u>	<u>245,443</u>	<u>-</u>	<u>3,117,713</u>
Total accumulated depreciation	<u>3,998,652</u>	<u>346,903</u>	<u>-</u>	<u>4,345,555</u>
Business-type capital assets, net	<u>\$ 12,368,944</u>	<u>\$ (339,810)</u>	<u>\$ -</u>	<u>\$ 12,029,134</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities		
General government		\$ 122,168
Public safety		71,750
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>34,458</u>
Total governmental activities		<u>228,376</u>
Business-type activities		
Sewer		262,242
Water		<u>84,661</u>
Total business-type activities		<u>346,903</u>
Total primary government		<u>\$ 575,279</u>

City of Sandusky
Notes to Financial Statements
February 28, 2011

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due from/to other funds		
General	Tax	\$ 1,129,464
Sewer	Tax	2,167
Water	Tax	414
Water	Sewer	19,102
Water	Employee Sick	6,653
Sewer	General	<u>15,825</u>
		<u>\$ 1,173,625</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General	Local Street	\$ 250,000
Cemetery	General	605
General	Airport	16,788
General	Cemetery	<u>515</u>
		<u>\$ 267,908</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. In addition, transfers are used to move unrestricted senior

citizens fund revenue to finance debt that must be accounted for in the debt service fund. Also, the major street fund transfers over Act 51 dollars, as allowed by law, to the local street fund for road construction and maintenance.

NOTE 7 - CAPITAL LEASES

The City has a capital lease for a police car. The future minimum lease payments are as follows:

<u>Year ending February 28,</u>		
2012		\$ 7,514
2013		<u>7,514</u>
Total minimum lease payments		15,028
Less amount representing interest		<u>1,348</u>
Present value of minimum lease payments		<u>\$ 13,680</u>
Asset		
Machinery and equipment		\$ 21,194
Less accumulated depreciation		<u>-</u>
Total		<u>\$ 21,194</u>

City of Sandusky
Notes to Financial Statements
February 28, 2011

NOTE 8 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund, Sewer Fund and Water Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
Installment purchase agreements									
2001 Runway Rehabilitation Project	17,898	6/8/11	4.60%	2,078 - 2,165	\$ 4,243	\$ -	\$ 2,078	\$ 2,165	\$ 2,165
2003 Vacant Land	225,000	3/4/18	4.55%	14,090 - 20,113	152,487	-	14,090	138,397	14,731
2004 Michigan Economic Dev. Corporation	384,152	11/1/13	5.00%	6,455 - 10,765	154,697	-	36,871	117,826	38,750
2006 Vacant Land	300,000	6/30/21	4.69%	16,328 - 27,032	<u>255,276</u>	<u>-</u>	<u>16,328</u>	<u>238,948</u>	<u>17,094</u>
Total bonds and notes payable					566,703	-	69,367	497,336	72,740
Capital leases									
2011 Police Car Lease	21,194	2/21/13	6.50%	\$6,625 - \$7,055	-	21,194	7,514	13,680	6,625
Compensated absences					<u>94,959</u>	<u>9,522</u>	<u>-</u>	<u>104,481</u>	<u>-</u>
Total governmental activities					<u>\$ 661,662</u>	<u>\$ 30,716</u>	<u>\$ 76,881</u>	<u>\$ 615,497</u>	<u>\$ 79,365</u>

City of Sandusky
Notes to Financial Statements
February 28, 2011

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities									
Bonds and notes payable									
General obligation bonds									
Water Supply System Revenue Bonds, Series 2000	\$ 650,000	11/1/17	5.30%-5.80%	\$40,000 - \$50,000	\$ 365,000	\$ -	\$ 40,000	\$ 325,000	\$ 40,000
Water Supply System Revenue Bonds, Series 2001	750,000	11/1/21	4.50%-5.40%	30,000 - 75,000	625,000	-	30,000	595,000	35,000
Sewage Disposal System Revenue Bonds, Series 2005A	3,690,000	9/1/45	4.25%	42,000 - 187,000	3,538,000	-	42,000	3,496,000	44,000
Sewage Disposal System Revenue Bonds, Series 2005B	1,650,000	9/1/45	4.25%	20,000 - 87,000	1,578,000	-	20,000	1,558,000	21,000
Water Supply System Junior Lien Revenue Bonds, Series 2005A	1,346,000	11/1/45	4.25%	20,000 - 64,000	1,266,000	-	20,000	1,246,000	20,000
For issuance discounts					<u>(11,336)</u>	<u>-</u>	<u>(1,135)</u>	<u>(10,201)</u>	<u>-</u>
Total bonds payable					7,360,664	-	150,865	7,209,799	160,000
Compensated absences					<u>154,940</u>	<u>-</u>	<u>107,669</u>	<u>47,271</u>	<u>-</u>
Total business-type activities					<u>\$ 7,515,604</u>	<u>\$ -</u>	<u>\$ 258,534</u>	<u>\$ 7,257,070</u>	<u>\$ 160,000</u>

City of Sandusky
Notes to Financial Statements
February 28, 2011

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 79,365	\$ 23,341	\$ 160,000	\$ 315,504
2013	81,059	19,381	168,000	307,963
2014	66,734	15,293	175,000	300,084
2015	36,447	12,881	178,000	291,806
2016	38,133	11,195	191,000	283,198
2017-2021	175,791	28,793	999,000	1,277,684
2022-2026	33,487	3,977	762,000	1,068,216
2027-2031	-	-	814,000	908,060
2032-2036	-	-	1,001,000	720,252
2037-2041	-	-	1,237,000	488,290
2042-2046	-	-	1,535,000	201,748
	<u>\$ 511,016</u>	<u>\$ 114,861</u>	<u>\$ 7,220,000</u>	<u>\$ 6,162,805</u>

NOTE 9 - RISK MANAGEMENT

The government is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other municipalities to form the Michigan Risk Management Authority (MMRMA), a public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of \$3 million for each insured event. The MMRMA provides general liability, casualty and fleet coverage to the City.

The City is also a member of the Michigan Municipal League (MML). The City contracts with Meadowbrook Insurance through the MML for its worker's compensation and airport insurance coverage. The City

continues to carry commercial insurance for employee health coverage through Blue Cross Blue Shield of Michigan.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The City of Sandusky maintains two defined benefit plans. Two former employees still receive benefits from plans administered by Midwest Pension Actuaries (MPA). The MERS administers all current eligible employees and all retired employees not administered by Midwest Pension Actuaries, Inc. As such, the City's financial statements reflect the activity of the pension fund as administered by Midwest Pension Actuaries, Inc. The following is a summary of both defined benefit pension plans.

Plan as administered by Midwest Pension Actuaries, Inc.

The cost and market value of the pension fund investments administered by MPA at February 28, 2011 are as follows:

	Cost	Market
Scudder Investments	\$ 42,944	\$ 42,944
American Life Annuity	9,091	9,091
Total	<u>\$ 52,035</u>	<u>\$ 52,035</u>

Plan as administered by Michigan Municipal Employees' Retirement System

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

City of Sandusky
Notes to Financial Statements
February 28, 2011

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government’s competitive bargaining units and requires a contribution from the employees of 3.00%, 5.00% and 3.00% of gross wages for general employees, police and DPW and WWTP union, respectively.

Annual pension costs – For year ended 2011, the government’s annual pension cost of \$134,028 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal cost method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary increases of 4.5 percent per year; and 3) 3% - 4% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	2010	2009	2008
Annual pension cost	\$ 129,582	\$ 145,808	\$ 152,587
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	2,044,460	1,912,960	1,725,838
Actuarial accrued liabilities	3,753,255	3,750,952	3,676,093
Unfunded AAL	1,708,795	1,837,992	1,950,255
Funded ratio	54.0%	51.0%	47.0%
Covered payroll	798,545	806,720	968,451
UAAL as a percentage of covered payroll	214%	228%	201%

NOTE 11 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in the preceding note, the City provides a fixed amount in post-retirement health care benefits per month. Contracts identify specific requirements. There are three participants receiving benefits, and there were expenditures of \$9,600 for the fiscal year.

As permitted by the Michigan Department of Treasury, effective March 1, 2002, the City established an Employee Sick Pay Fund and Employee Health Care Fund. The Employee Sick Pay Fund is used to account for money set-aside for employee’s sick pay. The Employee Health Care Fund is for the accumulation and investment of funds to provide for the funding of health care benefits to retired employees and their beneficiaries.

Plan Description – The City of Sandusky administers a single-employer defined benefit plan (the Plan). The plan provides a fixed amount in post – retirement health care benefits per month. The Plan does not issue a publicly available report.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The City has elected to calculate the ARC and related information using the alternative method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarially accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City’s net OPEB obligation:

City of Sandusky
Notes to Financial Statements
February 28, 2011

Annual required contribution	\$	47,145
Contributions made to OPEB		<u>9,600</u>
Change in net OPEB obligation		37,545
Net OPEB liability, beginning of year		<u>36,642</u>
Net OPEB liability, end of year	\$	<u><u>74,187</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011 is as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ <u>47,145</u>	20%	\$ <u>74,187</u>

Funding Policy, Funded Status, and Funding Progress – The City funds the Plan on a pay-as-you-go basis. For the year ended February 28, 2011, the City contributed \$9,600 to the Plan. As of February 28, 2011, the actuarial accrued liability for benefits was \$74,187. The projection of future benefits from an ongoing plan involves estimates of the value of the reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The actuarial methods and

assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

Other Assumptions and Methods – Life expectancy was based on mortality tables published by the National Center for Health Statistics where required. The amounts in the union agreements and employment agreements were used to calculate the present value of total benefits to be paid. The rate of return was assumed to be 1%.

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 13 - RESERVE FOR REPAIR, REPLACEMENTS AND IMPROVEMENT (RRI)

The debt agreements covering loans payable to Rural Development requires that the City accumulate annual reserves as follows:

	Bond Reserve		RRI Reserve
Water Fund	\$ 7,340	\$	22,000
Sewer Fund	28,250		-

City of Sandusky
Notes to Financial Statements
February 28, 2011

After ten years of bond reserve transferring the annual bond reserve amount will then be transferred to the RRI reserve account for both funds until the loans are paid in full. The following summarizes the transactions in the reserve accounts for the fiscal year ended February 28, 2011.

	Water Fund		
	Bond Reserve	RRI Reserve	Total
Beginning Balance	\$ 61,650	\$ 91,919	\$ 153,569
Interest	238	376	614
Additions	7,340	22,000	29,340
Ending Balance	<u>\$ 69,228</u>	<u>\$ 114,295</u>	<u>\$ 183,523</u>

	Sewer Fund		
	Bond Reserve	RRI Reserve	Total
Beginning Balance	\$ 205,499	\$ -	\$ 205,499
Interest	801	-	801
Additions	56,500	-	56,500
Ending Balance	<u>\$ 262,800</u>	<u>\$ -</u>	<u>\$ 262,800</u>

At February 28, 2011, the reserve accounts were in compliance with the minimum balance set forth by Rural Development.

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 28, 2011

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Revenues				
Taxes				
Property taxes	\$ 1,343,400	\$ 1,364,400	\$ 1,364,338	\$ (62)
Penalties and interest	1,000	1,000	579	(421)
Licenses and permits	3,500	3,500	3,527	27
State revenue sharing	244,000	244,000	244,440	440
State grants	1,000	7,100	47,189	40,089
Local contributions	4,000	4,000	-	(4,000)
Charges for services	140,600	140,600	142,628	2,028
Fines and forfeitures	400	400	450	50
Interest income	10,000	10,000	7,206	(2,794)
Rental income	19,880	19,880	11,844	(8,036)
Other revenue	12,500	12,500	19,052	6,552
Sale of fixed assets	-	-	144,026	144,026
Note proceeds	-	-	21,194	21,194
Transfer in	50,000	57,500	605	(56,895)
	<u>1,830,280</u>	<u>1,864,880</u>	<u>2,007,078</u>	<u>142,198</u>
Total revenues				

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 28, 2011

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Expenditures				
General government				
City Council	\$ 14,000	\$ 11,000	\$ 10,443	\$ (557)
Manager	68,670	75,220	76,445	1,225
Clerk	71,950	75,800	73,800	(2,000)
Board of review	1,700	1,700	738	(962)
Treasurer	21,800	21,800	20,398	(1,402)
Assessor	16,695	14,695	14,706	11
Elections	2,500	3,225	3,094	(131)
Buildings and grounds	197,230	221,330	197,796	(23,534)
Cemetery	40,945	41,445	38,053	(3,392)
Total general government	<u>435,490</u>	<u>466,215</u>	<u>435,473</u>	<u>(30,742)</u>
Public safety				
Police	381,520	422,020	425,993	3,973
Fire department	79,600	67,100	66,460	(640)
Total public safety	<u>461,120</u>	<u>489,120</u>	<u>492,453</u>	<u>3,333</u>
Public works				
Department of public works	147,325	161,525	163,063	1,538
Sidewalks	15,000	15,000	689	(14,311)
Street lighting	79,300	79,300	79,010	(290)
Sanitary land fill	110,400	110,400	112,298	1,898
Total public works	<u>352,025</u>	<u>366,225</u>	<u>355,060</u>	<u>(11,165)</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 28, 2011

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Community and economic development				
Planning	\$ 1,750	\$ 250	\$ 15	\$ (235)
Zoning	800	800	162	(638)
Total community and economic development	<u>2,550</u>	<u>1,050</u>	<u>177</u>	<u>(873)</u>
Recreation and culture				
Parks and recreation	<u>65,765</u>	<u>65,765</u>	<u>62,390</u>	<u>(3,375)</u>
Other functions				
Unallocated employee fringe benefits	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Capital outlay	<u>76,100</u>	<u>140,000</u>	<u>79,741</u>	<u>(60,259)</u>
Debt service				
Principal retirement	67,300	67,300	75,056	7,756
Interest and fiscal charges	<u>26,000</u>	<u>26,000</u>	<u>25,385</u>	<u>(615)</u>
Total debt service	<u>93,300</u>	<u>93,300</u>	<u>100,441</u>	<u>7,141</u>
Transfers out	<u>328,930</u>	<u>272,055</u>	<u>267,303</u>	<u>(4,752)</u>
Total expenditures	<u>1,830,280</u>	<u>1,908,730</u>	<u>1,808,038</u>	<u>(100,692)</u>
Excess (deficiency) of revenues over expenditures	-	(43,850)	199,040	242,890
Fund balance - beginning of year	<u>1,280,374</u>	<u>1,280,374</u>	<u>1,280,374</u>	<u>-</u>
Fund balance - end of year	<u>\$ 1,280,374</u>	<u>\$ 1,236,524</u>	<u>\$ 1,479,414</u>	<u>\$ 242,890</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
Year Ended February 28, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues				
Federal grants	\$ 350,000	\$ 350,000	\$ 293,714	\$ (56,286)
Other state grants	163,730	163,730	167,253	3,523
Interest income	1,000	1,000	799	(201)
Other revenue	-	-	45	45
	<u>514,730</u>	<u>514,730</u>	<u>461,811</u>	<u>(52,919)</u>
Total revenues				
Expenditures				
Current				
Public works	106,615	106,615	103,462	(3,153)
Capital outlay	<u>503,115</u>	<u>503,115</u>	<u>469,996</u>	<u>(33,119)</u>
	<u>609,730</u>	<u>609,730</u>	<u>573,458</u>	<u>(36,272)</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(95,000)	(95,000)	(111,647)	(16,647)
Fund balance - beginning of year	<u>321,369</u>	<u>321,369</u>	<u>321,369</u>	<u>-</u>
Fund balance - end of year	<u>\$ 226,369</u>	<u>\$ 226,369</u>	<u>\$ 209,722</u>	<u>\$ (16,647)</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
Year Ended February 28, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues				
Other state grants	\$ 55,500	\$ 55,500	\$ 54,444	\$ (1,056)
Local contributions	142,000	142,000	143,587	1,587
Interest income	1,000	1,000	1,627	627
Transfers in	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Total revenues	<u>448,500</u>	<u>448,500</u>	<u>449,658</u>	<u>1,158</u>
Expenditures				
Current				
Public works	152,545	152,545	170,776	18,231
Capital outlay	<u>421,395</u>	<u>421,395</u>	<u>184,645</u>	<u>(236,750)</u>
Total expenditures	<u>573,940</u>	<u>573,940</u>	<u>355,421</u>	<u>(218,519)</u>
Excess (deficiency) of revenues over expenditures	(125,440)	(125,440)	94,237	219,677
Fund balance - beginning of year	<u>232,725</u>	<u>232,725</u>	<u>232,725</u>	<u>-</u>
Fund balance - end of year	<u>\$ 107,285</u>	<u>\$ 107,285</u>	<u>\$ 326,962</u>	<u>\$ 219,677</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Senior Citizens Housing
Year Ended February 28, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues				
Federal grants	\$ 240,000	\$ 240,000	\$ 235,454	\$ (4,546)
Interest income	400	400	278	(122)
Rental income	169,932	169,932	164,881	(5,051)
Other revenue	-	-	133	133
	<u>410,332</u>	<u>410,332</u>	<u>400,746</u>	<u>(9,586)</u>
Total revenues				
Expenditures				
Current				
Health and welfare	311,090	311,090	249,258	(61,832)
Capital outlay	99,242	99,242	-	(99,242)
	<u>410,332</u>	<u>410,332</u>	<u>249,258</u>	<u>(161,074)</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	-	-	151,488	151,488
Fund balance - beginning of year	<u>9,313</u>	<u>9,313</u>	<u>9,313</u>	<u>-</u>
Fund balance - end of year	<u>\$ 9,313</u>	<u>\$ 9,313</u>	<u>\$ 160,801</u>	<u>\$ 151,488</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Airport Fund
Year Ended February 28, 2011

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Federal grants	\$ -	\$ -	\$ 244,665	\$ 244,665
Other state grants	-	-	49,368	49,368
Charges for services	22,000	22,000	11,905	(10,095)
Interest income	100	100	78	(22)
Rental income	28,000	28,000	25,915	(2,085)
Other revenue	-	-	3,459	3,459
Transfers in	17,000	17,000	16,788	(212)
Total revenues	<u>67,100</u>	<u>67,100</u>	<u>352,178</u>	<u>285,078</u>
Expenditures				
Current				
Public works	56,800	56,800	49,862	(6,938)
Capital outlay	8,000	8,000	301,428	293,428
Debt service				
Principal retirement	2,100	2,100	2,078	(22)
Interest and fiscal charges	200	200	195	(5)
Total expenditures	<u>67,100</u>	<u>67,100</u>	<u>353,563</u>	<u>286,463</u>
Excess (deficiency) of revenues over expenditures	-	-	(1,385)	(1,385)
Fund balance - beginning of year	<u>16,479</u>	<u>16,479</u>	<u>16,479</u>	<u>-</u>
Fund balance - end of year	<u>\$ 16,479</u>	<u>\$ 16,479</u>	<u>\$ 15,094</u>	<u>\$ (1,385)</u>

City of Sandusky
Required Supplemental Information
Schedule of Funding Progress - Other Post Employment Benefits
February 28, 2011

Valuation Date	Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (b - a)	Funded Ratio (Percent) (a / b)
2/28/2010	\$ -	\$ 344,000	\$ 344,000	0%
2/28/2011	\$ -	\$ 401,000	\$ 401,000	0%

City of Sandusky
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
February 28, 2011

	<u>Permanent Fund Cemetery</u>
Assets	
Cash and cash equivalents	\$ <u>71,228</u>
Fund balances	
Reserved for:	
Perpetual care	\$ <u>71,228</u>

City of Sandusky
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended February 28, 2011

	<u>Permanent Fund Cemetery</u>
Revenues	
Interest income	\$ <u>40</u>
Other financing sources	
Transfers in	\$ 515
Transfers out	<u>(605)</u>
Total other financing sources and uses	<u>(90)</u>
Net change in fund balance	(50)
Fund balance - beginning of year	<u>71,278</u>
Fund balance - end of year	<u><u>\$ 71,228</u></u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2011

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Governmental Activities						
2001 Installment Loan - Runway Rehabilitation Project Amount of issue - \$17,898	4.60%	6/8/11	\$ 2,165	\$ 100	\$ -	\$ 2,265
2003 Installment Loan - Vacant Land Amount of issue - \$225,000	4.55%	3/4/11	\$ 14,731	\$ 6,297	\$ -	\$ 21,028
	4.55%	3/4/12	15,386	5,642	-	21,028
	4.55%	3/4/13	16,101	4,927	-	21,028
	4.55%	3/4/14	16,834	4,194	-	21,028
	4.55%	3/4/15	17,600	3,428	-	21,028
	4.55%	3/4/16	18,394	2,634	-	21,028
	4.55%	3/4/17	19,238	1,790	-	21,028
	4.55%	3/4/18	20,113	915	-	21,028
			<u>\$ 138,397</u>	<u>\$ 29,827</u>	<u>\$ -</u>	<u>\$ 168,224</u>
2011 Police Car Lease Amount of Issue - \$13,680	6.50%	2/21/12	\$ 6,625	\$ 889	\$ -	\$ 7,514
	6.50%	2/21/13	7,055	459	-	7,514
			<u>\$ 13,680</u>	<u>\$ 1,348</u>	<u>\$ -</u>	<u>\$ 15,028</u>
2004 Michigan Economic Dev. Corporation	5.00%	5/1/08	\$ 6,455	\$ 2,709	\$ -	\$ 9,164
	5.00%	5/1/11	9,508	1,392	-	10,900
	5.00%	8/1/11	9,626	1,273	-	10,899
	5.00%	11/1/11	9,747	1,153	-	10,900
	5.00%	2/1/12	9,869	1,031	-	10,900
	5.00%	5/1/12	9,992	908	-	10,900
	5.00%	8/1/12	10,117	783	-	10,900
	5.00%	11/1/12	10,243	656	-	10,899
	5.00%	2/1/13	10,371	528	-	10,899
	5.00%	5/1/13	10,501	399	-	10,900

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2011

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
	5.00%	8/1/13	\$ 10,632	\$ 267	\$ -	\$ 10,899
	5.00%	11/1/13	10,765	135	-	10,900
			<u>\$ 117,826</u>	<u>\$ 11,234</u>	<u>\$ -</u>	<u>\$ 129,060</u>
2006 Installment Loan - Vacant Land	4.69%	6/30/11	\$ 17,094	\$ 11,206	\$ -	\$ 28,300
Amount of issue - \$300,000	4.69%	6/30/12	17,895	10,405	-	28,300
	4.69%	6/30/13	18,735	9,565	-	28,300
	4.69%	6/30/14	19,613	8,687	-	28,300
	4.69%	6/30/15	20,533	7,767	-	28,300
	4.69%	6/30/16	21,496	6,804	-	28,300
	4.69%	6/30/17	22,504	5,796	-	28,300
	4.69%	6/30/18	23,560	4,740	-	28,300
	4.69%	6/30/19	24,665	3,635	-	28,300
	4.69%	6/30/20	25,821	2,479	-	28,300
	4.69%	6/30/21	27,032	1,268	-	28,300
			<u>\$ 238,948</u>	<u>\$ 72,352</u>	<u>\$ -</u>	<u>\$ 311,300</u>
Business-type Activities						
Water Supply System Revenue	5.40%	11/1/11	\$ 40,000	\$ 8,081	\$ 9,161	\$ 57,242
Bonds, Series 2000	5.50%	11/1/12	45,000	6,844	8,081	59,925
Amount of issue - \$650,000	5.60%	11/1/13	45,000	5,584	6,844	57,428
	5.65%	11/1/14	45,000	4,312	5,584	54,896
	5.70%	11/1/15	50,000	2,888	4,312	57,200
	5.75%	11/1/16	50,000	1,450	2,888	54,338
	5.80%	11/1/17	50,000	-	1,450	51,450
			<u>\$ 325,000</u>	<u>\$ 29,159</u>	<u>\$ 38,320</u>	<u>\$ 392,479</u>
Water Supply System Revenue	4.60%	11/1/11	\$ 35,000	\$ 15,255	\$ 15,255	\$ 65,510
Bonds, Series 2001	4.70%	11/1/12	35,000	14,450	14,450	63,900

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2011

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Amount of issue - \$750,000	4.80%	11/1/13	\$ 40,000	\$ 13,628	\$ 13,628	\$ 67,256
	4.90%	11/1/14	40,000	12,668	12,668	65,336
	5.00%	11/1/15	45,000	11,688	11,688	68,376
	5.10%	11/1/16	50,000	10,562	10,562	71,124
	5.20%	11/1/17	50,000	9,287	9,287	68,574
	5.25%	11/1/18	75,000	7,988	7,988	90,976
	5.30%	11/1/19	75,000	6,019	6,019	87,038
	5.35%	11/1/20	75,000	4,031	4,031	83,062
	5.40%	11/1/21	75,000	2,025	2,025	79,050
			<u>\$ 595,000</u>	<u>\$ 107,601</u>	<u>\$ 107,601</u>	<u>\$ 810,202</u>
Sewage Disposal System Revenue	4.25%	9/1/2011	\$ 44,000	\$ 74,290	\$ 74,290	\$ 192,580
Bonds Series 2005 A	4.25%	9/1/2012	46,000	73,355	73,355	192,710
Amount of issue - \$3,690,000	4.25%	9/1/2013	48,000	72,378	72,378	192,756
	4.25%	9/1/2014	50,000	71,358	71,358	192,716
	4.25%	9/1/2015	52,000	70,295	70,295	192,590
	4.25%	9/1/2016	55,000	69,190	69,190	193,380
	4.25%	9/1/2017	57,000	68,021	68,021	193,042
	4.25%	9/1/2018	59,000	66,810	66,810	192,620
	4.25%	9/1/2019	62,000	65,556	65,556	193,112
	4.25%	9/1/2020	65,000	64,239	64,239	193,478
	4.25%	9/1/2021	68,000	62,858	62,858	193,716
	4.25%	9/1/2022	71,000	61,413	61,413	193,826
	4.25%	9/1/2023	74,000	59,904	59,904	193,808
	4.25%	9/1/2024	77,000	58,331	58,331	193,662
	4.25%	9/1/2025	80,000	56,695	56,695	193,390
	4.25%	9/1/2026	84,000	54,995	54,995	193,990
	4.25%	9/1/2027	87,000	53,210	53,210	193,420
	4.25%	9/1/2028	91,000	51,361	51,361	193,722

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2011

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
	4.25%	9/1/2029	\$ 95,000	\$ 49,428	\$ 49,428	\$ 193,856
	4.25%	9/1/2030	99,000	47,409	47,409	193,818
	4.25%	9/1/2031	104,000	45,305	45,305	194,610
	4.25%	9/1/2032	108,000	43,095	43,095	194,190
	4.25%	9/1/2033	113,000	40,800	40,800	194,600
	4.25%	9/1/2034	118,000	38,399	38,399	194,798
	4.25%	9/1/2035	123,000	35,891	35,891	194,782
	4.25%	9/1/2036	128,000	33,278	33,278	194,556
	4.25%	9/1/2037	134,000	30,558	30,558	195,116
	4.25%	9/1/2038	140,000	27,710	27,710	195,420
	4.25%	9/1/2039	146,000	24,735	24,735	195,470
	4.25%	9/1/2040	152,000	21,633	21,633	195,266
	4.25%	9/1/2041	159,000	18,403	18,403	195,806
	4.25%	9/1/2042	166,000	15,024	15,024	196,048
	4.25%	9/1/2043	173,000	11,496	11,496	195,992
	4.25%	9/1/2044	181,000	7,820	7,820	196,640
	4.25%	9/1/2045	187,000	3,974	3,974	194,948
			<u>\$ 3,496,000</u>	<u>\$ 1,649,217</u>	<u>\$ 1,649,217</u>	<u>\$ 6,794,434</u>
Sewage Disposal System Revenue	4.25%	9/1/2011	\$ 21,000	\$ 33,108	\$ 33,108	\$ 87,216
Bonds Series 2005 B	4.25%	9/1/2012	22,000	32,661	32,661	87,322
Amount of issue - \$1,650,000	4.25%	9/1/2013	22,000	32,194	32,194	86,388
	4.25%	9/1/2014	23,000	31,726	31,726	86,452
	4.25%	9/1/2015	24,000	31,238	31,238	86,476
	4.25%	9/1/2016	25,000	30,728	30,728	86,456
	4.25%	9/1/2017	26,000	30,196	30,196	86,392
	4.25%	9/1/2018	27,000	29,644	29,644	86,288
	4.25%	9/1/2019	28,000	29,070	29,070	86,140
	4.25%	9/1/2020	30,000	28,475	28,475	86,950

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2011

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
	4.25%	9/1/2021	\$ 31,000	\$ 27,838	\$ 27,838	\$ 86,676
	4.25%	9/1/2022	32,000	27,179	27,179	86,358
	4.25%	9/1/2023	33,000	26,499	26,499	85,998
	4.25%	9/1/2024	35,000	25,798	25,798	86,596
	4.25%	9/1/2025	36,000	25,054	25,054	86,108
	4.25%	9/1/2026	38,000	24,289	24,289	86,578
	4.25%	9/1/2027	39,000	23,481	23,481	85,962
	4.25%	9/1/2028	41,000	22,653	22,653	86,306
	4.25%	9/1/2029	43,000	21,781	21,781	86,562
	4.25%	9/1/2030	44,000	20,868	20,868	85,736
	4.25%	9/1/2031	46,000	19,933	19,933	85,866
	4.25%	9/1/2032	48,000	18,955	18,955	85,910
	4.25%	9/1/2033	50,000	17,935	17,935	85,870
	4.25%	9/1/2034	52,000	16,873	16,873	85,746
	4.25%	9/1/2035	54,000	15,768	15,768	85,536
	4.25%	9/1/2036	57,000	14,620	14,620	86,240
	4.25%	9/1/2037	59,000	13,409	13,409	85,818
	4.25%	9/1/2038	61,000	12,155	12,155	85,310
	4.25%	9/1/2039	64,000	10,859	10,859	85,718
	4.25%	9/1/2040	66,000	9,499	9,499	84,998
	4.25%	9/1/2041	69,000	8,096	8,096	85,192
	4.25%	9/1/2042	72,000	6,630	6,630	85,260
	4.25%	9/1/2043	75,000	5,100	5,100	85,200
	4.25%	9/1/2044	78,000	3,506	3,506	85,012
	4.25%	9/1/2045	87,000	1,849	1,849	90,698
			\$ 1,558,000	\$ 729,667	\$ 729,667	\$ 3,017,334
Water Supply System Junior Lien	4.25%	11/1/2011	\$ 20,000	\$ 26,478	\$ 26,478	\$ 72,956
Revenue Bonds Series 2005 A	4.25%	11/1/2012	20,000	26,053	26,053	72,106

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2011

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Amount of issue - \$1,346,000	4.25%	11/1/2013	\$ 20,000	\$ 25,628	\$ 25,628	\$ 71,256
	4.25%	11/1/2014	20,000	25,203	25,203	70,406
	4.25%	11/1/2015	20,000	24,778	24,778	69,556
	4.25%	11/1/2016	25,000	24,353	24,353	73,706
	4.25%	11/1/2017	25,000	23,821	23,821	72,642
	4.25%	11/1/2018	30,000	23,290	23,290	76,580
	4.25%	11/1/2019	30,000	22,653	22,653	75,306
	4.25%	11/1/2020	30,000	22,015	22,015	74,030
	4.25%	11/1/2021	30,000	21,378	21,378	72,756
	4.25%	11/1/2022	30,000	20,740	20,740	71,480
	4.25%	11/1/2023	30,000	20,103	20,103	70,206
	4.25%	11/1/2024	30,000	19,465	19,465	68,930
	4.25%	11/1/2025	30,000	18,828	18,828	67,656
	4.25%	11/1/2026	30,000	18,190	18,190	66,380
	4.25%	11/1/2027	30,000	17,553	17,553	65,106
	4.25%	11/1/2028	30,000	16,915	16,915	63,830
	4.25%	11/1/2029	31,000	16,278	16,278	63,556
	4.25%	11/1/2030	32,000	15,619	15,619	63,238
	4.25%	11/1/2031	34,000	14,939	14,939	63,878
	4.25%	11/1/2032	35,000	14,216	14,216	63,432
	4.25%	11/1/2033	37,000	13,473	13,473	63,946
	4.25%	11/1/2034	39,000	12,686	12,686	64,372
	4.25%	11/1/2035	40,000	11,858	11,858	63,716
	4.25%	11/1/2036	42,000	11,008	11,008	64,016
	4.25%	11/1/2037	44,000	10,115	10,115	64,230
	4.25%	11/1/2038	46,000	9,180	9,180	64,360
	4.25%	11/1/2039	48,000	8,203	8,203	64,406
	4.25%	11/1/2040	50,000	7,183	7,183	64,366
	4.25%	11/1/2041	52,000	6,120	6,120	64,240

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2011

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
	4.25%	11/1/2042	\$ 55,000	\$ 5,015	\$ 5,015	\$ 65,030
	4.25%	11/1/2043	57,000	3,846	3,846	64,692
	4.25%	11/1/2044	60,000	2,635	2,635	65,270
	4.25%	11/1/2045	64,000	1,360	1,360	66,720
			<u>\$ 1,246,000</u>	<u>\$ 561,178</u>	<u>\$ 561,178</u>	<u>\$ 2,368,356</u>