

City of Sandusky

Sanilac County, Michigan

**Annual Financial Statements
and
Auditors' Report**

February 29, 2012

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City of Sandusky
List of Elected and Appointed Officials
February 29, 2012

City Council

Thomas Lukshaitis	Mayor
Norton Schramm	Councilperson
Larry Mitchell	Councilperson
Douglas Guibord	Councilperson
Virginia Bissett	Councilperson
Sandra Barr	Councilperson
Marguerite McNiven	Councilperson

Other Officers and Officials

David Faber	City Manager
Laurie Thompson	City Clerk
Barbara Mitchell	Treasurer



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 29, 2012, 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 29, 2012 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.

As discussed in Note 1 to the financial statements, the Entity adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended February 29, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2012 on our consideration of the City of Sandusky's internal control over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and not to provide an opinion on the internal control over financial reporting. 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified in the table of contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Sandusky's financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
June 14, 2012

City of Sandusky
Management's Discussion and Analysis
February 29, 2012

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 29, 2012. 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 4% from a year ago – increasing from \$14.1 million to \$14.6 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 \$256,000 during the year. The business-type activities experienced approximately \$250,000 increase in net assets.

City of Sandusky
Management's Discussion and Analysis
February 29, 2012

Following is an analysis of the major components of the net assets of the City as of February 29, 2012.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Other assets	\$ 4,422,387	\$ 4,002,263	\$ 2,384,784	\$ 2,067,267	\$ 6,807,171	\$ 6,069,530
Capital assets	<u>3,934,058</u>	<u>4,190,783</u>	<u>11,719,868</u>	<u>12,029,134</u>	<u>15,653,926</u>	<u>16,219,917</u>
Total assets	<u>8,356,445</u>	<u>8,193,046</u>	<u>14,104,652</u>	<u>14,096,401</u>	<u>22,461,097</u>	<u>22,289,447</u>
Liabilities						
Other liabilities	70,345	85,664	141,331	160,694	211,676	246,358
Noncurrent liabilities	<u>589,644</u>	<u>666,945</u>	<u>7,056,381</u>	<u>7,279,809</u>	<u>7,646,025</u>	<u>7,946,754</u>
Total liabilities	<u>659,989</u>	<u>752,609</u>	<u>7,197,712</u>	<u>7,440,503</u>	<u>7,857,701</u>	<u>8,193,112</u>
Net assets						
Invested in capital assets - Net of related debt	3,502,407	3,679,767	4,755,868	4,819,335	8,258,275	8,499,102
Restricted	75,567	74,096	722,589	768,703	798,156	842,799
Unrestricted	<u>4,118,482</u>	<u>3,686,574</u>	<u>1,428,483</u>	<u>1,067,860</u>	<u>5,546,965</u>	<u>4,754,434</u>
Total net assets	<u>\$ 7,696,456</u>	<u>\$ 7,440,437</u>	<u>\$ 6,906,940</u>	<u>\$ 6,655,898</u>	<u>\$ 14,603,396</u>	<u>\$ 14,096,335</u>

City of Sandusky
Management's Discussion and Analysis
February 29, 2012

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues						
Charges for services	\$ 398,488	\$ 362,901	\$ 1,509,470	\$ 1,520,076	\$ 1,907,958	\$ 1,882,977
Operating grants and contributions	229,554	246,383	-	-	229,554	246,383
Capital grants and contributions	427,016	941,545	-	6,600	427,016	948,145
General revenues						
Property taxes	1,205,628	1,267,615	-	-	1,205,628	1,267,615
State shared revenue	244,207	293,808	-	-	244,207	293,808
Unrestricted investment income	9,717	10,836	3,578	4,186	13,295	15,022
Gain on sale of capital assets	7,810	130,457	-	-	7,810	130,457
Miscellaneous	115,095	19,316	64,203	84,817	179,298	104,133
Transfers	(47,000)	-	47,000	-	-	-
Total revenues	<u>2,590,515</u>	<u>3,272,861</u>	<u>1,624,251</u>	<u>1,615,679</u>	<u>4,214,766</u>	<u>4,888,540</u>
Program expenses						
General government	839,673	592,083	-	-	839,673	592,083
Public safety	593,617	564,203	-	-	593,617	564,203
Public works	572,350	683,513	-	-	572,350	683,513
Health and welfare	245,134	249,258	-	-	245,134	249,258
Community and economic	201	177	-	-	201	177
Recreation and culture	63,088	62,072	-	-	63,088	62,072
Interest on long-term debt	20,433	24,580	-	-	20,433	24,580
Sewer	-	-	959,377	953,344	959,377	953,344
Water	-	-	413,832	383,043	413,832	383,043
Total expenses	<u>2,334,496</u>	<u>2,175,886</u>	<u>1,373,209</u>	<u>1,336,387</u>	<u>3,707,705</u>	<u>3,512,273</u>
Change in net assets	<u>\$ 256,019</u>	<u>\$ 1,096,975</u>	<u>\$ 251,042</u>	<u>\$ 279,292</u>	<u>\$ 507,061</u>	<u>\$ 1,376,267</u>

City of Sandusky
Management's Discussion and Analysis
February 29, 2012

Governmental Activities

The City's total governmental activities revenues were \$2.6 million. This is a 21% decrease over last year. The decrease is primarily due to the sale of the fire hall, receipt of state funds for construction of Campbell road, and construction at the City's airport which was all recorded in the prior year. In addition revenue sharing and property taxes continue to decrease.

The City's total governmental activities expenses were \$2.3 million. This is a 7% increase over last year.

Business-type Activities

The City's total business-type activities revenues were \$1.6 million. This is a .5% increase over last year.

The City's total business-type activities expenses were \$1.3 million. This is a .4% increase over last year.

The sewer fund operations experienced an increase of \$28,000 in leachate revenue and a decrease in revenues of \$13,000 in customer fees. 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 \$14,000 and an increase in repair and maintenance of approximately \$18,000. A decrease in revenue is attributed to \$21,000 decrease in customer fees. There were no major changes to water rates and there were two major water system improvement projects totaling \$46,000 during 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 2011-2012 include the General, Senior Citizens Housing, 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 \$448,363 in 2011-2012. There are no major changes in revenue or projects anticipated in the next year budget.

City of Sandusky
Management's Discussion and Analysis
February 29, 2012

The Senior Citizens Housing Fund is funded by federal grants and rental income from residents. A management company has been hired to operate the facility for 2012/2013.

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 2011-2012, the City had \$15,653,926 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 \$431,651 in installment purchase agreements, and \$83,156 in compensated absences. Debt attributable to business-type activities includes \$6,996,310 in bonds payable and \$60,096 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 2012-2013 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 manager.

City of Sandusky
Statement of Net Assets
February 29, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,238,397	\$ 1,680,885	\$ 5,919,282
Receivables			
Taxes	133,047	-	133,047
Customers	33,797	390,108	423,905
Due from other units of government	113,246	-	113,246
Internal balances	(96,100)	96,100	-
Restricted assets			
Cash and cash equivalents	-	217,691	217,691
Capital assets not being depreciated	692,258	-	692,258
Capital assets, net of accumulated depreciation	<u>3,241,800</u>	<u>11,719,868</u>	<u>14,961,668</u>
 Total assets	 <u>8,356,445</u>	 <u>14,104,652</u>	 <u>22,461,097</u>
Liabilities			
Accounts payable	21,415	4,297	25,712
Accrued and other liabilities	48,930	137,034	185,964
Noncurrent liabilities			
Due within one year	81,059	165,000	246,059
Due in more than one year	433,748	6,859,096	7,292,844
Other post employment benefit obligation	<u>74,837</u>	<u>32,285</u>	<u>107,122</u>
 Total liabilities	 <u>659,989</u>	 <u>7,197,712</u>	 <u>7,857,701</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Net Assets
February 29, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net assets			
Invested in capital assets, net of related debt	\$ 3,502,407	\$ 4,755,868	\$ 8,258,275
Restricted for:			
Drug forfeiture	2,869	-	2,869
Debt	-	217,691	217,691
Perpetual care	72,698	-	72,698
Bond redemption	-	368,290	368,290
Repair, replacement and improvement	-	136,608	136,608
Unrestricted	<u>4,118,482</u>	<u>1,428,483</u>	<u>5,546,965</u>
Total net assets	<u>\$ 7,696,456</u>	<u>\$ 6,906,940</u>	<u>\$ 14,603,396</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Activities
Year Ended February 29, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Functions/Programs							
Primary government							
Governmental activities							
General government	\$ 839,673	\$ 32,379	\$ -	\$ -	\$ (807,294)	\$ -	\$ (807,294)
Public safety	593,617	8,277	-	-	(585,340)	-	(585,340)
Public works	572,350	167,936	8,677	426,712	30,975	-	30,975
Health and welfare	245,134	163,860	218,958	-	137,684	-	137,684
Community and economic development	201	-	-	-	(201)	-	(201)
Recreation and culture	63,088	26,036	1,919	304	(34,829)	-	(34,829)
Interest on long-term debt	20,433	-	-	-	(20,433)	-	(20,433)
Total governmental activities	<u>2,334,496</u>	<u>398,488</u>	<u>229,554</u>	<u>427,016</u>	<u>(1,279,438)</u>	<u>-</u>	<u>(1,279,438)</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Activities
Year Ended February 29, 2012

	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	\$ 959,377	\$ 931,643	\$ -	\$ -	\$ -	\$ (27,734)	\$ (27,734)
Water	413,832	577,827	-	-	-	163,995	163,995
Total business-type activities	<u>1,373,209</u>	<u>1,509,470</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136,261</u>	<u>136,261</u>
Total primary government	<u>\$ 3,707,705</u>	<u>\$ 1,907,958</u>	<u>\$ 229,554</u>	<u>\$ 427,016</u>	<u>(1,279,438)</u>	<u>136,261</u>	<u>(1,143,177)</u>
General revenues							
Property taxes					1,205,628	-	1,205,628
State shared revenue					244,207	-	244,207
Unrestricted investment earnings					9,717	3,578	13,295
Gain on sale of capital assets					7,810	-	7,810
Miscellaneous					115,095	64,203	179,298
Transfers					<u>(47,000)</u>	<u>47,000</u>	<u>-</u>
Total general revenues					<u>1,535,457</u>	<u>114,781</u>	<u>1,650,238</u>
Change in net assets					256,019	251,042	507,061
Net assets - beginning of year					<u>7,440,437</u>	<u>6,655,898</u>	<u>14,096,335</u>
Net assets - end of year					<u>\$ 7,696,456</u>	<u>\$ 6,906,940</u>	<u>\$ 14,603,396</u>

See Accompanying Notes to Financial Statements

**City of Sandusky
Governmental Funds
Balance Sheet
February 29, 2012**

	<u>General</u>	<u>Special Revenue Fund Senior Citizens Housing</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 2,480,542	\$ 309,256	\$ 957,848	\$ 3,747,646
Receivables				
Taxes	110,569	-	-	110,569
Customers	30,538	-	1,180	31,718
Due from other units of government	<u>77,924</u>	<u>-</u>	<u>35,322</u>	<u>113,246</u>
Total assets	<u>\$ 2,699,573</u>	<u>\$ 309,256</u>	<u>\$ 994,350</u>	<u>\$ 4,003,179</u>
Liabilities				
Accounts payable	\$ 14,243	\$ 3,804	\$ 1,330	\$ 19,377
Accrued and other liabilities	23,632	10,785	2,021	36,438
Deferred revenue	<u>1,218,115</u>	<u>-</u>	<u>-</u>	<u>1,218,115</u>
Total liabilities	<u>1,255,990</u>	<u>14,589</u>	<u>\$ 3,351</u>	<u>1,273,930</u>

See Accompanying Notes to Financial Statements

**City of Sandusky
Governmental Funds
Balance Sheet
February 29, 2012**

	<u>General</u>	<u>Special Revenue Fund Senior Citizens Housing</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balances				
Restricted for:				
Drug forfeiture	\$ 2,869	\$ -	\$ -	\$ 2,869
Perpetual care	-	-	72,698	72,698
Assigned to:				
Cemetery	21,025	-	-	21,025
City Hall	30,467	-	-	30,467
Fire Hall	105,236	-	-	105,236
Industrial Park	38,461	-	-	38,461
Recreation	53,586	-	-	53,586
Police	27,489	-	-	27,489
Senior citizens building	154,193	-	-	154,193
Special revenue funds	-	294,667	918,301	1,212,968
Unassigned, reported in:				
General fund	<u>1,010,257</u>	<u>-</u>	<u>-</u>	<u>1,010,257</u>
 Total fund balances	<u>1,443,583</u>	<u>294,667</u>	<u>990,999</u>	<u>2,729,249</u>
 Total liabilities and fund balances	<u>\$ 2,699,573</u>	<u>\$ 309,256</u>	<u>\$ 994,350</u>	<u>\$ 4,003,179</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 29, 2012

Total fund balances for governmental funds	\$ 2,729,249
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,767,529
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	1,218,115
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(12,000)
Compensated absences	(83,156)
Net other post employment obligation	(74,837)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(431,651)
Internal service funds are included as part of governmental activities.	<u>583,207</u>
Net assets of governmental activities	<u>\$ 7,696,456</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended February 29, 2012

	General	Special Revenue Fund Senior Citizens Housing	Other Governmental Funds	Governmental Funds Total
Revenues				
Taxes	\$ 1,259,051	\$ -	\$ -	\$ 1,259,051
Licenses and permits	3,528	-	-	3,528
Federal grants	-	218,958	69,351	288,309
State revenue sharing	241,899	-	-	241,899
Other state grants	9,424	-	226,402	235,826
Local contributions	4,749	-	132,847	137,596
Charges for services	156,595	-	32,329	188,924
Fines and forfeitures	3,560	-	-	3,560
Interest income	6,056	606	2,339	9,001
Rental income	4,025	165,779	27,697	197,501
Other revenue	117,120	81	39	117,240
Total revenues	<u>1,806,007</u>	<u>385,424</u>	<u>491,004</u>	<u>2,682,435</u>
Expenditures				
Current				
General government	511,741	-	-	511,741
Public safety	510,461	-	-	510,461
Public works	320,415	-	277,031	597,446
Health and welfare	-	245,134	-	245,134
Community and economic development	201	-	-	201
Recreation and culture	63,469	-	-	63,469
Other functions	21,704	-	-	21,704
Capital outlay	25,141	6,424	92,828	124,393
Debt service				
Principal retirement	78,070	-	2,165	80,235
Interest and fiscal charges	22,371	-	62	22,433
Total expenditures	<u>1,553,573</u>	<u>251,558</u>	<u>372,086</u>	<u>2,177,217</u>
Excess of revenues over expenditures	<u>252,434</u>	<u>133,866</u>	<u>118,918</u>	<u>505,218</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended February 29, 2012

	General	Special Revenue Fund Senior Citizens Housing	Other Governmental Funds	Governmental Funds Total
Other financing sources (uses)				
Transfers in	\$ -	\$ -	\$ 249,075	\$ 249,075
Transfers out	(296,075)	-	-	(296,075)
Sale of fixed assets	7,810	-	-	7,810
Total other financing sources (uses)	<u>(288,265)</u>	<u>-</u>	<u>249,075</u>	<u>(39,190)</u>
Net change in fund balance	(35,831)	133,866	367,993	466,028
Fund balance - beginning of year	<u>1,479,414</u>	<u>160,801</u>	<u>623,006</u>	<u>2,263,221</u>
Fund balance - end of year	<u>\$ 1,443,583</u>	<u>\$ 294,667</u>	<u>\$ 990,999</u>	<u>\$ 2,729,249</u>

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 29, 2012

Net change in fund balances - total governmental funds	\$ 466,028
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	(224,746)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	(53,423)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	2,000
Compensated absences	21,325
Net other post employment obligation	(23,389)
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.	
Repayments of long-term debt	79,365
Internal service funds are also included as governmental activities	<u>32,709</u>
Change in net assets of governmental activities	<u>\$ 256,019</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 29, 2012

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 992,114	\$ 688,771	\$ 1,680,885	\$ 490,751
Receivables				
Customers	239,075	151,033	390,108	2,079
Due from other funds	15,825	25,755	41,580	-
Total current assets	<u>1,247,014</u>	<u>865,559</u>	<u>2,112,573</u>	<u>492,830</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	26,162	191,529	217,691	-
Capital assets, net of accumulated depreciation	8,817,513	2,902,355	11,719,868	166,529
Total noncurrent assets	<u>8,843,675</u>	<u>3,093,884</u>	<u>11,937,559</u>	<u>166,529</u>
Total assets	<u>10,090,689</u>	<u>3,959,443</u>	<u>14,050,132</u>	<u>659,359</u>
Liabilities				
Current liabilities				
Accounts payable	2,348	1,949	4,297	2,038
Accrued and other liabilities	108,711	28,323	137,034	492
Due to other funds	19,102	-	19,102	-
Current portion of noncurrent liabilities	68,000	97,000	165,000	-
Total current liabilities	<u>198,161</u>	<u>127,272</u>	<u>325,433</u>	<u>2,530</u>

See Accompanying Notes to Financial Statements

**City of Sandusky
Proprietary Funds
Statement of Net Assets
February 29, 2012**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Noncurrent liabilities				
Current liabilities payable from restricted assets				
Long-term debt net of current portion	\$ 4,962,686	\$ 1,896,410	\$ 6,859,096	\$ -
Other post employment benefit obligation	<u>26,263</u>	<u>6,022</u>	<u>32,285</u>	<u>-</u>
Total noncurrent liabilities	<u>4,988,949</u>	<u>1,902,432</u>	<u>6,891,381</u>	<u>-</u>
Total liabilities	<u>5,187,110</u>	<u>2,029,704</u>	<u>7,216,814</u>	<u>2,530</u>
Net assets				
Invested in capital assets, net of related debt	3,828,513	927,355	4,755,868	166,529
Restricted for:				
Debt	26,162	191,529	217,691	-
Bond redemption	291,566	76,724	368,290	-
Repair, replacement and improvement	-	136,608	136,608	-
Unrestricted	<u>757,338</u>	<u>597,523</u>	<u>1,354,861</u>	<u>490,300</u>
Total net assets	<u>\$ 4,903,579</u>	<u>\$ 1,929,739</u>	6,833,318	<u>\$ 656,829</u>
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			<u>73,622</u>	
Net assets of business-type activities			<u>\$ 6,906,940</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 29, 2012

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Operating revenue				
Customer fees	\$ 931,628	\$ 577,827	\$ 1,509,455	\$ -
Billings to other funds	-	-	-	129,190
Connection fees	15	-	15	-
Other revenue	30,960	7,544	38,504	-
	<u>962,603</u>	<u>585,371</u>	<u>1,547,974</u>	<u>129,190</u>
Total operating revenue				
Operating expenses				
Personnel services	288,031	79,630	367,661	17,989
Supplies	31,471	15,614	47,085	19,660
Contractual services	26,100	2,715	28,815	675
Utilities	100,336	33,038	133,374	-
Repairs and maintenance	26,061	37,927	63,988	16,077
Other expenses	14,553	25,979	40,532	8,801
Depreciation	261,679	85,521	347,200	31,979
	<u>748,231</u>	<u>280,424</u>	<u>1,028,655</u>	<u>95,181</u>
Total operating expenses				
Operating income	<u>214,372</u>	<u>304,947</u>	<u>519,319</u>	<u>34,009</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 29, 2012

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Nonoperating revenue (expenses)				
Interest income	\$ 1,620	\$ 1,958	\$ 3,578	\$ 693
Gain on bond refunding	-	25,699	25,699	-
Gain on sale of assets	-	-	-	4,059
Loss on disposal of assets	(6,733)	(1,267)	(8,000)	-
Bond issuance costs	-	(35,900)	(35,900)	-
Interest expense	(204,641)	(102,065)	(306,706)	-
 Total nonoperating revenues (expenses)	 (209,754)	 (111,575)	 (321,329)	 4,752
 Income before contributions	 4,618	 193,372	 197,990	 38,761
 Transfers in	 -	 47,000	 47,000	 -
 Change in net assets	 4,618	 240,372	 244,990	 38,761
 Net assets - beginning of year	 4,898,961	 1,689,367		 618,068
 Net assets - end of year	 \$ 4,903,579	 \$ 1,929,739		 \$ 656,829
 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			 6,052	
 Change in net assets of business-type activities			 \$ 251,042	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 29, 2012

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Cash flows from operating activities				
Receipts from customers	\$ 957,790	\$ 591,052	\$ 1,548,842	\$ -
Receipts from interfund users	-	-	-	127,111
Payments to other funds	2,167	414	2,581	-
Payments to suppliers	(208,307)	(104,311)	(312,618)	(47,092)
Payments to employees	(288,031)	(79,630)	(367,661)	(17,989)
Payments for interfund services used	(821)	(19,718)	(20,539)	-
Net cash provided by operating activities	<u>462,798</u>	<u>387,807</u>	<u>850,605</u>	<u>62,030</u>
Cash flows from noncapital financing activities				
Transfer from other funds	-	47,000	47,000	-
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>47,000</u>	<u>47,000</u>	<u>-</u>
Cash flows from capital and related financing activities				
Proceeds from capital debt	-	840,000	840,000	-
Purchases/construction of capital assets	-	(45,934)	(45,934)	-
Principal and interest paid on long-term debt	(249,198)	(1,131,137)	(1,380,335)	-
Net cash provided (used) by capital and related financing activities	<u>(249,198)</u>	<u>(337,071)</u>	<u>(586,269)</u>	<u>4,060</u>
Cash flows from investing activities				
Interest received	1,620	1,958	3,578	693
Net change in cash and cash equivalents	<u>215,220</u>	<u>99,694</u>	<u>314,914</u>	<u>66,783</u>
Cash and cash equivalents - beginning of year	803,056	780,606	1,583,662	423,968
Cash and cash equivalents - end of year	<u>\$ 1,018,276</u>	<u>\$ 880,300</u>	<u>\$ 1,898,576</u>	<u>\$ 490,751</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 29, 2012

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 214,372	\$ 304,947	\$ 519,319	\$ 34,009
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	261,679	85,521	347,200	31,979
Changes in assets and liabilities				
Receivables (net)	(4,813)	5,681	868	(2,079.00)
Due from other funds	2,167	414	2,581	-
Accounts payable	(9,727)	(2,547)	(12,274)	(2,074)
Accrued and other liabilities	(880)	(6,209)	(7,089)	195
Net cash provided by operating activities	<u>\$ 462,798</u>	<u>\$ 387,807</u>	<u>\$ 850,605</u>	<u>\$ 62,030</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Net Assets
February 29, 2012

	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	\$ 100,303	\$ -	\$ 112,250	\$ 212,553	\$ 295,541
Investments	-	53,482	-	53,482	-
Accrued interest and other	-	-	5	5	-
Total assets	<u>100,303</u>	<u>53,482</u>	<u>112,255</u>	<u>266,040</u>	<u>295,541</u>
Liabilities					
Due to other funds	22,478	-	-	22,478	-
Due to other units of government	-	-	-	-	295,541
Total liabilities	<u>22,478</u>	<u>-</u>	<u>-</u>	<u>22,478</u>	<u>\$ 295,541</u>
Net assets					
Held in trust for pension benefits and other purposes	<u>\$ 77,825</u>	<u>\$ 53,482</u>	<u>\$ 112,255</u>	<u>\$ 243,562</u>	

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Changes in Net Assets
Year Ended February 29, 2012

	Employee Sick Pay Trust Fund	Pension Trust Fund	Employee Health Care Trust Fund	Total Pension and Other Employee Benefit Trust Funds
Additions				
Contributions				
Employer	\$ 1,200	\$ -	\$ 21,704	\$ 22,904
Investment earnings				
Investment income	<u>80</u>	<u>1,798</u>	<u>53</u>	<u>1,931</u>
Total additions	<u>1,280</u>	<u>1,798</u>	<u>21,757</u>	<u>24,835</u>
Deductions				
Benefits	<u>30,875</u>	<u>-</u>	<u>-</u>	<u>30,875</u>
Change in net assets	(29,595)	1,798	21,757	(6,040)
Net assets - beginning of year	<u>107,420</u>	<u>51,684</u>	<u>90,498</u>	<u>249,602</u>
Net assets - end of year	<u>\$ 77,825</u>	<u>\$ 53,482</u>	<u>\$ 112,255</u>	<u>\$ 243,562</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Notes to Financial Statements
February 29, 2012

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 29, 2012

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 Senior Citizens Housing Fund accounts for the operation of the senior citizens housing unit 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 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

City of Sandusky
Notes to Financial Statements
February 29, 2012

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.

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 2010 taxable valuation of the government totaled \$66,735,145, on which ad valorem taxes consisted of 19 mills for operating purposes. This resulted in \$1,267,968 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 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.

City of Sandusky
Notes to Financial Statements
February 29, 2012

Property, plant and equipment are 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 allows certain staff groups to carryover unused days. 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.

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.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable - assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained on use imposed by the City’s highest level of decision-making, its City Council. A fund balance commitment may be established, modified, or rescinded by a resolution of the City Council.

Assigned – amounts intended to be used for specific purposes, as determined by the City Manager. The City Council has granted the City Manager the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

City of Sandusky
Notes to Financial Statements
February 29, 2012

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the City's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Comparative data

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

Adoption of New Accounting Standard

The Government Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which the City adopted effective March 1, 2011. 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 standard also includes a new definition of special revenue funds.

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statements 63 and 65, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Items Previously Reported as Assets and Liabilities*. The new standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. These statements will be adopted for the fiscal year ending February 28, 2013.

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 year end, 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 line item 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.

City of Sandusky
Notes to Financial Statements
February 29, 2012

Excess of Expenditures Over Appropriations

The City incurred expenditures in excess of budget in the General Fund. Excess expenditures in this fund occurred in the following areas:

	Final Budget	Actual	Variance
General Fund			
General government	\$ 491,730	\$ 511,741	\$ 20,011
Other functions	21,700	21,704	4
Debt service	93,120	100,441	7,321

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

	Primary Government	Fiduciary Funds
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 4,847,903	\$ 295,541
Investments in securities, mutual funds and similar vehicles	1,288,570	266,035
Petty cash and cash on hand	500	-
	<u>\$ 6,136,973</u>	<u>\$ 561,576</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	Cash and Cash Equivalents	Investments	Restricted Cash and Cash Equivalents	Total
Governmental activities	\$ 4,238,397	\$ -	\$ -	\$ 4,238,397
Business-type activities	1,680,885	-	217,691	1,898,576
 Total primary government	 5,919,282	 -	 217,691	 6,136,973
Fiduciary funds	508,094	53,482	-	561,576
 Total	 <u>\$ 6,427,376</u>	 <u>\$ 53,482</u>	 <u>\$ 217,691</u>	 <u>\$ 6,698,549</u>

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

Investment	Fair Value	Maturities	Rating
American Life Annuity	\$ 9,455		Unrated
DWS Balanced Fund A	6,564	Daily	Unrated
DWS High Income Fund A	37,464	Daily	Unrated
Chase High Yield Savings	1,501,122	Daily	Unrated
	<u>\$ 1,554,605</u>		

City of Sandusky
Notes to Financial Statements
February 29, 2012

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, \$2,976,424 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	<u>\$ 1,218,115</u>

City of Sandusky
Notes to Financial Statements
February 29, 2012

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	\$ 692,258	-	-	\$ 692,258
Capital assets being depreciated				
Land improvements	660,028	-	-	660,028
Infrastructure	1,905,383	-	-	1,905,383
Buildings, additions and improvements	1,263,166	-	-	1,263,166
Machinery and equipment	678,185	-	18,189	659,996
Vehicles	358,161	-	73,309	284,852
Total capital assets being depreciated	<u>4,864,923</u>	<u>-</u>	<u>91,498</u>	<u>4,773,425</u>
Less accumulated depreciation for				
Land improvements	90,796	29,273	-	120,069
Infrastructure	268,892	127,023	-	395,915
Buildings, additions and improvements	186,995	50,744	-	237,739
Machinery and equipment	493,598	41,246	18,189	516,655
Vehicles	326,117	8,439	73,309	261,247
Total accumulated depreciation	<u>1,366,398</u>	<u>256,725</u>	<u>91,498</u>	<u>1,531,625</u>
Net capital assets being depreciated	<u>3,498,525</u>	<u>(256,725)</u>	<u>-</u>	<u>3,241,800</u>
Governmental activities capital assets, net	<u>\$ 4,190,783</u>	<u>\$ (256,725)</u>	<u>\$ -</u>	<u>\$ 3,934,058</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets being depreciated				
Machinery and equipment	\$ 341,354	\$ -	67,429	\$ 273,925
Vehicles	6,268	-	6,268	-
Water system	3,884,555	45,934	12,282	3,918,207
Sewer system	<u>12,142,512</u>	<u>-</u>	<u>-</u>	<u>12,142,512</u>
Total capital assets being depreciated	<u>16,374,689</u>	<u>45,934</u>	<u>85,979</u>	<u>16,334,644</u>
Less accumulated depreciation for				
Machinery and equipment	280,228	16,235	60,696	235,767
Vehicles	6,268	-	6,268	-
Water system	941,346	85,521	11,015	1,015,852
Sewer system	<u>3,117,713</u>	<u>245,444</u>	<u>-</u>	<u>3,363,157</u>
Total accumulated depreciation	<u>4,345,555</u>	<u>347,200</u>	<u>77,979</u>	<u>4,614,776</u>
Business-type capital assets, net	<u>\$ 12,029,134</u>	<u>\$ (301,266)</u>	<u>8,000</u>	<u>\$ 11,719,868</u>

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

Governmental activities		
General government		\$ 141,590
Public safety		83,156
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>31,979</u>
Total governmental activities		<u>256,725</u>
Business-type activities		
Sewer		261,679
Water		<u>85,521</u>
Total business-type activities		<u>347,200</u>
Total primary government		<u>\$ 603,925</u>

City of Sandusky
Notes to Financial Statements
February 29, 2012

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		
Water	Sewer	\$ 19,102
Water	Employee Sick	6,653
Sewer	General	<u>15,825</u>
		<u>\$ 41,580</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	\$ 216,650
General	Water	47,000
General	Airport	31,000
General	Cemetery	<u>1,425</u>
		<u>\$ 296,075</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>	
2013	<u>\$ 7,514</u>
Total minimum lease payments	7,514
Less amount representing interest	<u>459</u>
Present value of minimum lease payments	<u>\$ 7,055</u>
Asset	
Machinery and equipment	\$ 21,194
Less accumulated depreciation	<u>4,239</u>
Total	<u>\$ 16,955</u>

City of Sandusky
Notes to Financial Statements
February 29, 2012

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	\$ 2,165	\$ -	\$ 2,165	\$ -	\$ -
2003 Vacant Land	225,000	3/4/18	4.55%	14,090 - 20,113	138,397	-	14,731	123,666	15,386
2004 Michigan Economic Dev. Corporation	384,152	11/1/13	5.00%	6,455 - 10,765	117,826	-	38,750	79,076	40,723
2006 Vacant Land	300,000	6/30/21	4.69%	16,328 - 27,032	<u>238,948</u>	<u>-</u>	<u>17,094</u>	<u>221,854</u>	<u>17,895</u>
Total bonds and notes payable					497,336	-	72,740	424,596	74,004
Capital leases									
2011 Police Car Lease	21,194	2/21/13	6.50%	\$6,625 - \$7,055	13,680	-	6,625	7,055	7,055
Compensated absences									
					<u>104,481</u>	<u>9,550</u>	<u>30,875</u>	<u>83,156</u>	<u>-</u>
Total governmental activities					<u>\$ 615,497</u>	<u>\$ 9,550</u>	<u>\$ 110,240</u>	<u>\$ 514,807</u>	<u>\$ 81,059</u>

City of Sandusky
Notes to Financial Statements
February 29, 2012

	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	\$ 325,000	\$ -	\$ 325,000	\$ -	\$ -
Water Supply System Revenue Bonds, Series 2001	750,000	11/1/21	4.50%-5.40%	30,000 - 75,000	595,000	-	595,000	-	-
Water Supply System Revenue Bonds, Series 2011	840,000	11/1/21	4.025%	91,000 - 29,000	-	840,000	91,000	749,000	77,000
Sewage Disposal System Revenue Bonds, Series 2005A	3,690,000	9/1/45	4.125%	42,000 - 187,000	3,496,000	-	44,000	3,452,000	46,000
Sewage Disposal System Revenue Bonds, Series 2005B	1,650,000	9/1/45	4.125%	20,000 - 87,000	1,558,000	-	21,000	1,537,000	22,000
Water Supply System Junior Lien Revenue Bonds, Series 2005A	1,346,000	11/1/45	4.25%	20,000 - 64,000	1,246,000	-	20,000	1,226,000	20,000
For issuance discounts					(10,201)	-	(10,201)	-	-
Total bonds payable					7,209,799	840,000	1,085,799	6,964,000	165,000
Compensated absences					47,271	12,825	-	60,096	-
Total business-type activities					<u>\$ 7,257,070</u>	<u>\$ 852,825.00</u>	<u>\$ 1,085,799</u>	<u>\$ 7,024,096</u>	<u>\$ 165,000</u>

City of Sandusky
Notes to Financial Statements
February 29, 2012

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
2013	\$ 81,059	\$ 19,381	\$ 165,000	\$ 287,265
2014	66,734	15,293	171,000	280,470
2015	36,447	12,881	172,000	273,513
2016	38,133	11,195	184,000	266,371
2017	39,890	9,438	197,000	258,804
2018-2022	169,388	23,332	930,000	1,177,972
2023-2027	-	-	710,000	1,010,247
2028-2032	-	-	846,000	852,556
2033-2037	-	-	1,088,000	681,725
2038-2042	-	-	1,430,000	435,659
2043-2047	-	-	1,071,000	102,659
	<u>\$ 431,651</u>	<u>\$ 91,520</u>	<u>\$ 6,964,000</u>	<u>\$ 5,627,241</u>

During the year ended February 29, 2012, the City refinanced the Series 2000 and 2001 Water Supply System bonds. The refunding financed the payoff of the original notes from the City's books. The City will be required to make the new payments on a prearranged amortization. As a result of this refunding, the City recognized a gain of approximately \$26,000. Because of the reduced interest rate under the new note, the refunding should save the City approximately \$172,000 after issuance costs. Total defeased debt for the year ended February 29, 2012 was \$920,000.

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 Municipal 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 Cops Trust.

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 29, 2012 are as follows:

	<u>Cost</u>	<u>Market</u>
Scudder Investments	\$ 44,027	\$ 44,027
American Life Annuity	<u>9,455</u>	<u>9,455</u>
Total	<u>\$ 53,482</u>	<u>\$ 53,482</u>

City of Sandusky
Notes to Financial Statements
February 29, 2012

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 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

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 2012, the government's annual pension cost of \$141,085 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% 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.

The following is the most current information available at the time the City's financial statement audit was performed.

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 \$14,400 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.

City of Sandusky
Notes to Financial Statements
February 29, 2012

Annual other postemployment benefit (OPEB) Cost and Net OPEB Obligation – The City's annual 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:

Annual required contribution	\$	42,535
Contributions made to OPEB		<u>9,600</u>
Change in net OPEB obligation		32,935
Net OPEB liability, beginning of year		<u>74,187</u>
Net OPEB liability, end of year	\$	<u>107,122</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 is as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ <u>42,535</u>	20%	\$ <u>107,122</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 29, 2012, the City contributed \$9,600 to the Plan. As of February 29, 2012, the actuarial accrued liability for benefits was \$107,122. 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 - 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 29, 2012

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 29, 2012.

	Water Fund		
	Bond Reserve	RRI Reserve	Total
Beginning Balance	\$ 69,228	\$ 114,295	\$ 183,523
Interest	156	313	469
Additions	<u>7,340</u>	<u>22,000</u>	<u>29,340</u>
Ending Balance	<u>\$ 76,724</u>	<u>\$ 136,608</u>	<u>\$ 213,332</u>

	Sewer Fund		
	Bond Reserve	RRI Reserve	Total
Beginning Balance	\$ 200,564	\$ 62,236	\$ 262,800
Interest	401	115	516
Additions	<u>28,250</u>	<u>-</u>	<u>28,250</u>
Ending Balance	<u>\$ 229,215</u>	<u>\$ 62,351</u>	<u>\$ 291,566</u>

At February 29, 2012, 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 29, 2012

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Revenues				
Taxes				
Property taxes	\$ 1,267,000	\$ 1,267,000	\$ 1,258,147	\$ (8,853)
Penalties and interest	600	600	904	304
Licenses and permits	3,500	3,500	3,528	28
State revenue sharing	244,000	244,000	241,899	(2,101)
State grants	1,000	1,000	9,424	8,424
Local contributions	4,000	4,000	4,749.00	749
Charges for services	145,700	159,850	156,595	(3,255)
Fines and forfeitures	200	200	3,560	3,360
Interest income	8,000	8,000	6,056	(1,944)
Rental income	4,980	4,980	4,025	(955)
Other revenue	68,300	75,150	117,120	41,970
Sale of fixed assets	3,000	7,800	7,810	10
Transfer in	15,600	62,600	-	(62,600)
	<u>1,765,880</u>	<u>1,838,680</u>	<u>1,813,817</u>	<u>(24,863)</u>
Total revenues				

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 29, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Expenditures				
General government				
City Council	\$ 13,020	\$ 12,230	\$ 12,344	\$ 114
Manager	108,800	121,265	137,178	15,913
Clerk	76,640	72,340	71,403	(937)
Board of review	1,100	700	680	(20)
Treasurer	20,500	22,100	22,085	(15)
Assessor	14,495	11,495	11,376	(119)
Collections	2,500	3,940	3,883	(57)
Buildings and grounds	187,255	215,955	222,943	6,988
Cemetery	36,080	31,705	29,849	(1,856)
Total general government	<u>460,390</u>	<u>491,730</u>	<u>511,741</u>	<u>20,011</u>
Public safety				
Police	454,655	453,345	448,363	(4,982)
Fire department	70,000	62,110	62,098	(12)
Total public safety	<u>524,655</u>	<u>515,455</u>	<u>510,461</u>	<u>(4,994)</u>
Public works				
Department of public works	144,390	119,310	116,341	(2,969)
Sidewalks	12,000	1,500	1,479	(21)
Street lighting	80,000	81,350	81,341	(9)
Sanitary land fill	116,400	120,690	121,254	564
Total public works	<u>352,790</u>	<u>322,850</u>	<u>320,415</u>	<u>(2,435)</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 29, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Community and economic development				
Planning	\$ 600	\$ -	\$ -	\$ -
Monitoring	600	220	201	(19)
Total community and economic development	1,200	220	201	(19)
Recreation and culture				
Parks and recreation	61,795	63,660	63,469	(191)
Other functions				
Unallocated employee fringe benefits	21,700	21,700	21,704	4
Capital outlay	10,600	32,670	25,141	(7,529)
Debt service				
Principal retirement	70,700	70,700	78,070	7,370
Interest and fiscal charges	22,400	22,420	22,371	(49)
Total debt service	93,100	93,120	100,441	7,321
Transfers out	239,650	297,275	296,075	(1,200)
Total expenditures	1,765,880	1,838,680	1,849,648	10,968
Efficiency of revenues over expenditures	-	-	(35,831)	(35,831)
Fund balance - beginning of year	1,479,414	1,479,414	1,479,414	-
Fund balance - end of year	\$ 1,479,414	\$ 1,479,414	\$ 1,443,583	\$ (35,831)

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Senior Citizens Housing
Year Ended February 29, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Federal grants	\$ 235,000	\$ 235,000	\$ 218,958	\$ (16,042)
Interest income	300	300	606	306
Rental income	166,300	166,300	165,779	(521)
Other revenue	-	-	81	81
	<u>401,600</u>	<u>401,600</u>	<u>385,424</u>	<u>(16,176)</u>
Total revenues				
Expenditures				
Current				
Health and Welfare	273,090	273,090	245,134	(27,956)
Capital outlay	128,510	128,510	6,424	(122,086)
	<u>401,600</u>	<u>401,600</u>	<u>251,558</u>	<u>(150,042)</u>
Total expenditures				
Excess of revenues over expenditures	-	-	133,866	133,866
Fund balance - beginning of year	160,801	160,801	160,801	-
Fund balance - end of year	<u>\$ 160,801</u>	<u>\$ 160,801</u>	<u>\$ 294,667</u>	<u>\$ 133,866</u>

City of Sandusky
Required Supplemental Information
Schedule of Funding Progress of Other Post Employment Benefits
February 29, 2012

Valuation Date	Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (b - a)	Funded Ratio (Percent) (a ÷ b)
2/28/10	\$ -	\$ 344,000	\$ 344,000	0%
2/28/11	-	401,000	401,000	0%
2/28/12	-	387,000	387,000	0%

City of Sandusky
Other Supplemental Information
Combining Balance Sheet
Major Governmental Funds
February 29, 2012

	Special Revenue			Permanent Fund Cemetery	Total Funds
	Major Street	Local Street	Airport		
Assets					
Cash and cash equivalents	\$ 311,212	\$ 554,578	\$ 19,360	\$ 72,698	\$ 957,848
Receivables					
Customers	-	-	1,180	-	1,180
Due from other units of government	24,661	10,661	-	-	35,322
Total assets	\$ 335,873	\$ 565,239	\$ 20,540	\$ 72,698	\$ 994,350
Liabilities					
Accounts payable	\$ 31	\$ 1,160	\$ 139	\$ -	\$ 1,330
Accrued and other liabilities	816	776	429	-	2,021
Total liabilities	847	1,936	568	-	3,351
Fund balances					
Non-spendable for					
Perpetual care	-	-	-	72,698	72,698
Unassigned, reported in					
Special revenue funds					
Undesignated	335,026	563,303	19,972	-	918,301
Total fund balances	335,026	563,303	19,972	72,698	990,999
Total liabilities and fund balances	\$ 335,873	\$ 565,239	\$ 20,540	\$ 72,698	\$ 994,350

City of Sandusky
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Conforming to Governmental Funds
Year Ended February 29, 2012

	Special Revenue Funds			Permanent Fund	Total Conforming Governmental Funds
	Main Street	Local Street	Airport	Cemetery	
Revenues					
Federal grants	\$ -	\$ -	\$ 69,351	\$ -	\$ 69,351
Other state grants	166,369	57,725	2,308	-	226,402
Local contributions	32,364	100,483	-	-	132,847
Charges for services	-	-	32,329	-	32,329
Interest income	344	1,907	43	45	2,339
Rental income	-	-	27,697	-	27,697
Other revenue	-	-	39	-	39
Total revenues	199,077	160,115	131,767	45	491,004
Expenditures					
Current					
Public works	69,935	136,184	70,912	-	277,031
Capital outlay	3,838	4,240	84,750	-	92,828
Debt service					
Principal retirement	-	-	2,165	-	2,165
Interest and fiscal charges	-	-	62	-	62
Total expenditures	73,773	140,424	157,889	-	372,086
Excess (deficiency) of revenues over expenditures	125,304	19,691	(26,122)	45	118,918

City of Sandusky
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Conforming to Governmental Funds
Year Ended February 29, 2012

	Special Revenue Funds			Permanent Fund	Total Conforming Governmental Funds
	Main Street	Local Street	Airport	Cemetery	
Other financing sources					
Transfers in	\$ -	\$ 216,650	\$ 31,000	\$ 1,425	\$ 249,075
Net change in fund balance	125,304	236,341	4,878	1,470	367,993
Fund balance - beginning of year	209,722	326,962	15,094	71,228	623,006
Fund balance end of year	\$ 335,026	\$ 563,303	\$ 19,972	\$ 72,698	\$ 990,999

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2012

<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						
2003 Installment Loan - Vacant Land	4.55%	3/4/12	\$ 15,386	\$ 5,642	\$ -	\$ 21,028
Amount of issue - \$225,000	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>\$ 123,666</u>	<u>\$ 23,530</u>	<u>\$ -</u>	<u>\$ 147,196</u>
2011 Police Car Lease						
Amount of Issue - \$13,680	6.50%	2/21/13	<u>\$ 7,055</u>	<u>\$ 459</u>	<u>\$ -</u>	<u>\$ 7,514</u>
2004 Michigan Economic Dev. Corporation	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
	5.00%	8/1/13	10,632	267	-	10,899
	5.00%	11/1/13	17,220	135	-	17,355
			<u>\$ 79,076</u>	<u>\$ 3,676</u>	<u>\$ -</u>	<u>\$ 82,752</u>
2006 Installment Loan - Vacant Land	4.69%	6/30/12	\$ 17,895	\$ 10,405	\$ -	\$ 28,300
Amount of issue - \$300,000	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

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2012

<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>
	4.69%	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>\$ 221,854</u>	<u>\$ 61,146</u>	<u>\$ -</u>	<u>\$ 283,000</u>

Business-type Activities

Water Supply System Revenue	4.025%	5/1/12	\$ 39,000	\$ 15,074	\$ -	\$ 54,074
Bonds, Series 2011	4.025%	11/1/12	38,000	14,289	-	52,289
Amount of issue - \$840,000	4.025%	5/1/13	41,000	13,524	-	54,524
	4.025%	11/1/13	40,000	12,699	-	52,699
	4.025%	5/1/14	39,000	11,894	-	50,894
	4.025%	11/1/14	40,000	11,109	-	51,109
	4.025%	5/1/15	44,000	10,304	-	54,304
	4.025%	11/1/15	44,000	9,419	-	53,419
	4.025%	5/1/16	46,000	8,533	-	54,533
	4.025%	11/1/16	46,000	7,607	-	53,607
	4.025%	5/1/17	45,000	6,682	-	51,682
	4.025%	11/1/17	45,000	5,776	-	50,776
	4.025%	5/1/18	32,000	4,870	-	36,870
	4.025%	11/1/18	31,000	4,226	-	35,226
	4.025%	5/1/19	30,000	3,602	-	33,602
	4.025%	11/1/19	31,000	2,999	-	33,999
	4.025%	5/1/20	30,000	2,375	-	32,375
	4.025%	11/1/20	30,000	1,771	-	31,771
	4.025%	5/1/21	29,000	1,167	-	30,167
	4.025%	11/1/21	29,000	584	-	29,584
			<u>\$ 749,000</u>	<u>\$ 148,504</u>	<u>\$ -</u>	<u>\$ 897,504</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2012

<u>Description</u>	<u>Interest Rate</u>	<u>Rate of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Sewage Disposal System Revenue	4.125%	9/1/12	\$ 46,000	\$ 71,198	\$ 71,198	\$ 188,395
Bonds Series 2005 A	4.125%	9/1/13	48,000	70,249	70,249	188,498
Amount of issue - \$3,690,000	4.125%	9/1/14	50,000	69,259	69,259	188,518
	4.125%	9/1/15	52,000	68,228	68,228	188,455
	4.125%	9/1/16	55,000	67,155	67,155	189,310
	4.125%	9/1/17	57,000	66,021	66,021	189,041
	4.125%	9/1/18	59,000	64,845	64,845	188,690
	4.125%	9/1/19	62,000	63,628	63,628	189,256
	4.125%	9/1/20	65,000	62,349	62,349	189,699
	4.125%	9/1/21	68,000	61,009	61,009	190,018
	4.125%	9/1/22	71,000	59,606	59,606	190,213
	4.125%	9/1/23	74,000	58,142	58,142	190,284
	4.125%	9/1/24	77,000	56,616	56,616	190,231
	4.125%	9/1/25	80,000	55,028	55,028	190,055
	4.125%	9/1/26	84,000	53,378	53,378	190,755
	4.125%	9/1/27	87,000	51,645	51,645	190,290
	4.125%	9/1/28	91,000	49,851	49,851	190,701
	4.125%	9/1/29	95,000	47,974	47,974	190,948
	4.125%	9/1/30	99,000	46,014	46,014	191,029
	4.125%	9/1/31	104,000	43,973	43,973	191,945
	4.125%	9/1/32	108,000	41,828	41,828	191,655
	4.125%	9/1/33	113,000	39,600	39,600	192,200
	4.125%	9/1/34	118,000	37,269	37,269	192,539
	4.125%	9/1/35	123,000	34,836	34,836	192,671
	4.125%	9/1/36	128,000	32,299	32,299	192,598
	4.125%	9/1/37	134,000	29,659	29,659	193,318
	4.125%	9/1/38	140,000	26,895	26,895	193,790

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2012

<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>
	4.125%	9/1/39	\$ 146,000	\$ 24,008	\$ 24,008	\$ 194,015
	4.125%	9/1/40	152,000	20,996	20,996	193,993
	4.125%	9/1/41	159,000	17,861	17,861	194,723
	4.125%	9/1/42	166,000	14,582	14,582	195,164
	4.125%	9/1/43	173,000	11,158	11,158	195,316
	4.125%	9/1/44	181,000	7,590	7,590	196,180
	4.125%	9/1/45	187,000	3,857	3,857	194,714
			<u>\$ 3,452,000</u>	<u>\$ 1,528,601</u>	<u>\$ 1,528,601</u>	<u>\$ 6,509,203</u>
Sewage Disposal System Revenue	4.125%	9/1/12	\$ 22,000	\$ 31,701	\$ 31,701	\$ 85,401
Bonds Series 2005 B	4.125%	9/1/13	22,000	31,247	31,247	84,494
Amount of issue - \$1,650,000	4.125%	9/1/14	23,000	30,793	30,793	84,586
	4.125%	9/1/15	24,000	30,319	30,319	84,638
	4.125%	9/1/16	25,000	29,824	29,824	84,648
	4.125%	9/1/17	26,000	29,308	29,308	84,616
	4.125%	9/1/18	27,000	28,772	28,772	84,544
	4.125%	9/1/19	28,000	28,215	28,215	84,430
	4.125%	9/1/20	30,000	27,638	27,638	85,275
	4.125%	9/1/21	31,000	27,019	27,019	85,038
	4.125%	9/1/22	32,000	26,379	26,379	84,759
	4.125%	9/1/23	33,000	25,719	25,719	84,439
	4.125%	9/1/24	35,000	25,039	25,039	85,078
	4.125%	9/1/25	36,000	24,317	24,317	84,634
	4.125%	9/1/26	38,000	23,574	23,574	85,149
	4.125%	9/1/27	39,000	22,791	22,791	84,581
	4.125%	9/1/28	41,000	21,986	21,986	84,973
	4.125%	9/1/29	43,000	21,141	21,141	85,281
	4.125%	9/1/30	44,000	20,254	20,254	84,508
	4.125%	9/1/31	46,000	19,346	19,346	84,693

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2012

<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>
	4.125%	9/1/32	\$ 48,000	\$ 18,398	\$ 18,398	\$ 84,795
	4.125%	9/1/33	50,000	17,408	17,408	84,815
	4.125%	9/1/34	52,000	16,376	16,376	84,753
	4.125%	9/1/35	54,000	15,304	15,304	84,608
	4.125%	9/1/36	57,000	14,190	14,190	85,380
	4.125%	9/1/37	59,000	13,014	13,014	85,029
	4.125%	9/1/38	61,000	11,798	11,798	84,595
	4.125%	9/1/39	64,000	10,539	10,539	85,079
	4.125%	9/1/40	66,000	9,219	9,219	84,439
	4.125%	9/1/41	69,000	7,858	7,858	84,716
	4.125%	9/1/42	72,000	6,435	6,435	84,870
	4.125%	9/1/43	75,000	4,950	4,950	84,900
	4.125%	9/1/44	78,000	3,403	3,403	84,806
	4.125%	9/1/45	87,000	1,794	1,794	90,589
			<u>\$ 1,537,000</u>	<u>\$ 676,067</u>	<u>\$ 676,067</u>	<u>\$ 2,889,134</u>
Water Supply System Junior Lien Revenue Bonds Series 2005 A Amount of issue - \$1,346,000	4.25%	11/1/12	\$ 20,000	\$ 26,053	\$ 26,053	\$ 72,106
	4.25%	11/1/13	20,000	25,628	25,628	71,256
	4.25%	11/1/14	20,000	25,203	25,203	70,406
	4.25%	11/1/15	20,000	24,778	24,778	69,556
	4.25%	11/1/16	25,000	24,353	24,353	73,706
	4.25%	11/1/17	25,000	23,821	23,821	72,642
	4.25%	11/1/18	30,000	23,290	23,290	76,580
	4.25%	11/1/19	30,000	22,653	22,653	75,306
	4.25%	11/1/20	30,000	22,015	22,015	74,030
	4.25%	11/1/21	30,000	21,378	21,378	72,756
	4.25%	11/1/22	30,000	20,740	20,740	71,480
	4.25%	11/1/23	30,000	20,103	20,103	70,206
	4.25%	11/1/24	30,000	19,465	19,465	68,930

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 29, 2012

<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%	11/1/25	\$ 30,000	\$ 18,828	\$ 18,828	\$ 67,656
	4.25%	11/1/26	30,000	18,190	18,190	66,380
	4.25%	11/1/27	30,000	17,553	17,553	65,106
	4.25%	11/1/28	30,000	16,915	16,915	63,830
	4.25%	11/1/29	31,000	16,278	16,278	63,556
	4.25%	11/1/30	32,000	15,619	15,619	63,238
	4.25%	11/1/31	34,000	14,939	14,939	63,878
	4.25%	11/1/32	35,000	14,216	14,216	63,432
	4.25%	11/1/33	37,000	13,473	13,473	63,946
	4.25%	11/1/34	39,000	12,686	12,686	64,372
	4.25%	11/1/35	40,000	11,858	11,858	63,716
	4.25%	11/1/36	42,000	11,008	11,008	64,016
	4.25%	11/1/37	44,000	10,115	10,115	64,230
	4.25%	11/1/38	46,000	9,180	9,180	64,360
	4.25%	11/1/39	48,000	8,203	8,203	64,406
	4.25%	11/1/40	50,000	7,183	7,183	64,366
	4.25%	11/1/41	52,000	6,120	6,120	64,240
	4.25%	11/1/42	55,000	5,015	5,015	65,030
	4.25%	11/1/43	57,000	3,846	3,846	64,692
	4.25%	11/1/44	60,000	2,635	2,635	65,270
	4.25%	11/1/45	64,000	1,360	1,360	66,720
			<u>\$ 1,226,000</u>	<u>\$ 534,700</u>	<u>\$ 534,700</u>	<u>\$ 2,295,400</u>