

**City of Sandusky**

**Sanilac County, Michigan**

**Annual Financial Statements  
and  
Auditors' Report**

**February 28, 2013**

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**City of Sandusky**  
**List of Elected and Appointed Officials**  
**February 28, 2013**

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City Council

Thomas Lukshaitis	Mayor
Norton Schramm	Councilperson
Larry Mitchell	Councilperson
Roger Williamson	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



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## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sandusky, as of and for the year ended February 28, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sandusky, as of February 28, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter:**

As described in Note 1 to the financial statements, during the year ended February 28, 2013, the City adopted new accounting guidance, GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

### **Other Matters:**

#### ***Required Supplemental Information***

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.

### ***Other Supplemental Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sandusky's basic financial statements. The list of the elected officials and appointed officials and other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The list of the Members of elected and appointed officials, which is the responsibility of management, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2013 on our consideration of the City of Sandusky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Sandusky's internal control over financial reporting and compliance.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
July 19, 2013

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2013**

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**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, 2013. 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 Position 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 position increased 4% from a year ago – increasing from \$13.5 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 \$321,000 during the year. The business-type activities experienced approximately \$294,000 increase in net position.



**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2013**

Following is an analysis of the major components of the net position of the City as of February 28, 2013.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>						
Other assets	\$4,238,930	\$4,422,387	\$2,822,973	\$2,384,784	\$ 7,061,903	\$ 6,807,171
Capital assets	<u>4,277,446</u>	<u>3,934,058</u>	<u>11,504,265</u>	<u>11,800,610</u>	<u>15,781,711</u>	<u>15,734,668</u>
Total assets	<u>8,516,376</u>	<u>8,356,445</u>	<u>14,327,238</u>	<u>14,185,394</u>	<u>22,843,614</u>	<u>22,541,839</u>
<b>Liabilities</b>						
Other liabilities	59,601	70,345	146,388	141,331	205,989	211,676
Noncurrent liabilities	<u>505,171</u>	<u>589,644</u>	<u>6,898,886</u>	<u>7,056,381</u>	<u>7,404,057</u>	<u>7,646,025</u>
Total liabilities	<u>564,772</u>	<u>659,989</u>	<u>7,045,274</u>	<u>7,197,712</u>	<u>7,610,046</u>	<u>7,857,701</u>
<b>Deferred inflows of resources</b>						
Total deferred inflows of resources	<u>1,149,746</u>	<u>1,215,164</u>	-	-	<u>1,149,746</u>	<u>1,215,164</u>
Total liabilities and deferred inflows of resources	<u>1,714,518</u>	<u>1,875,153</u>	<u>7,045,274</u>	<u>7,197,712</u>	<u>8,759,792</u>	<u>9,072,865</u>
<b>Net position</b>						
Net investment in capital assets	3,945,902	3,502,407	4,705,265	4,836,610	8,651,167	8,339,017
Restricted	73,979	75,567	1,228,581	722,589	1,302,560	798,156
Assigned to	1,232,724	-	-	-	1,232,724	-
Unrestricted	<u>1,549,253</u>	<u>2,903,318</u>	<u>1,348,118</u>	<u>1,428,483</u>	<u>2,897,371</u>	<u>4,331,801</u>
Total net position	<u>\$6,801,858</u>	<u>\$6,481,292</u>	<u>\$7,281,964</u>	<u>\$6,987,682</u>	<u>\$14,083,822</u>	<u>\$13,468,974</u>

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2013**

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Program revenues</b>						
Charges for services	\$ 239,400	\$ 398,488	\$ 1,509,483	\$ 1,509,470	\$ 1,748,883	\$ 1,907,958
Operating grants and contributions	40,093	229,554	-	-	40,093	229,554
Capital grants and contributions	640,060	427,016	6,550	-	646,610	427,016
<b>General revenues</b>						
Property taxes	1,196,715	1,205,628	-	-	1,196,715	1,205,628
State shared revenue	251,870	244,207	-	-	251,870	244,207
Unrestricted investment income	7,274	9,717	2,791	3,578	10,065	13,295
Gain on sale of capital assets	2,421	7,810	-	-	2,421	7,810
Miscellaneous	175,028	115,095	44,359	64,203	219,387	179,298
Transfers	-	(47,000)	-	47,000	-	-
Dissolution of Senior Center	(312,804)	-	-	-	(312,804)	-
<b>Total revenues</b>	<u>2,240,057</u>	<u>2,590,515</u>	<u>1,563,183</u>	<u>1,624,251</u>	<u>3,803,240</u>	<u>4,214,766</u>
<b>Program expenses</b>						
General government	612,804	839,673	-	-	612,804	839,673
Public safety	601,902	593,617	-	-	601,902	593,617
Public works	615,722	572,350	-	-	615,722	572,350
Health and welfare	30,302	245,134	-	-	30,302	245,134
Community and economic development	3,806	201	-	-	3,806	201
Recreation and culture	36,319	63,088	-	-	36,319	63,088
Interest on long-term debt	18,636	20,433	-	-	18,636	20,433
Sewer	-	-	922,373	1,040,119	922,373	1,040,119
Water	-	-	346,528	413,832	346,528	413,832
<b>Total expenses</b>	<u>1,919,491</u>	<u>2,334,496</u>	<u>1,268,901</u>	<u>1,453,951</u>	<u>3,188,392</u>	<u>3,788,447</u>
<b>Change in Net Position</b>	<u>\$ 320,566</u>	<u>\$ 256,019</u>	<u>\$ 294,282</u>	<u>\$ 170,300</u>	<u>\$ 614,848</u>	<u>\$ 426,319</u>

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2013**

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**Governmental Activities**

The City's total governmental activities revenues were \$2.2 million. This is a 16% decrease over last year. The decrease is primarily due to the dissolution of the senior center, decreases in property tax and revenue sharing.

The City's total governmental activities expenses were \$1.9 million. This is an 18% decrease over last year.

**Business-type Activities**

The City's total business-type activities revenues were \$1.6 million. Specifically, this is a 3.75% decrease over last year.

The City's total business-type activities expenses were \$1.3 million. Specifically, this is a 7.5% decrease over last year.

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.

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 2012-2013 include the General, Major Street, Local Street, 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 \$516,021 in 2012-2013. There are no major changes in revenue or projects anticipated in the next year budget.

The Senior Citizens Housing Fund is funded by federal grants and rental income from residents. A management company was hired to operate the facility for 2012-2013 and is no longer run by the City.

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2013**

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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 2012 - 2013, the City had \$15,781,711 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 \$331,544 in installment purchase agreements, and \$71,373 in compensated absences. During the year \$34,073 of the MEDC debt was forgiven due to meeting certain requirements of the debt. Debt attributable to business-type activities includes \$6,799,000 in bonds payable and \$58,521 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 Position**  
**February 28, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,026,099	\$ 1,612,745	\$ 5,638,844
Receivables			
Taxes	113,103	-	113,103
Customers	45,709	381,774	427,483
Due from other units of government	117,270	-	117,270
Internal balances	(99,060)	99,060	-
Prepaid items	35,809	6,039	41,848
Restricted assets			
Cash and cash equivalents	-	723,355	723,355
Capital assets not being depreciated	1,015,497	-	1,015,497
Capital assets, net of accumulated depreciation	<u>3,261,949</u>	<u>11,504,265</u>	<u>14,766,214</u>
<b>Total assets</b>	<u>\$ 8,516,376</u>	<u>\$ 14,327,238</u>	<u>\$ 22,843,614</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Statement of Net Position**  
**February 28, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Liabilities</b>			
Accounts payable	\$ 33,431	\$ 15,669	\$ 49,100
Accrued and other liabilities	26,170	130,719	156,889
Noncurrent liabilities			
Due within one year	45,694	171,000	216,694
Due in more than one year	357,223	6,686,521	7,043,744
Other post employment benefit obligation	102,254	41,365	143,619
Total liabilities	<u>564,772</u>	<u>7,045,274</u>	<u>7,610,046</u>
<b>Deferred inflows of resources</b>			
Total deferred inflows of resources	<u>1,149,746</u>	-	<u>1,149,746</u>
<b>Total liabilities and deferred inflows of resources</b>	<u>1,714,518</u>	<u>7,045,274</u>	<u>8,759,792</u>
<b>Net position</b>			
Net investment in capital assets	3,945,902	4,705,265	8,651,167
Restricted for:			
Debt	-	723,355	723,355
Perpetual care	73,979	-	73,979
Bond redemption	-	306,115	306,115
Repair, replacement and improvement	-	199,111	199,111
Assigned to:			
Cemetery	21,068	-	21,068
City Hall	30,529	-	30,529
Fire Hall	105,448	-	105,448
Industrial Park	38,539	-	38,539
Recreation	53,694	-	53,694
Police	27,544	-	27,544
Special revenue funds	955,902		955,902
Unrestricted	<u>1,549,253</u>	<u>1,348,118</u>	<u>2,897,371</u>
<b>Total net position</b>	<u>\$ 6,801,858</u>	<u>\$ 7,281,964</u>	<u>\$ 14,083,822</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Statement of Activities**  
**Year Ended February 28, 2013**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 612,804	\$ 29,819	\$ -	\$ -	\$ (582,985)	\$ -	\$ (582,985)
Public safety	601,902	6,513	-	-	(595,389)	-	(595,389)
Public works	615,722	180,757	9,300	640,060	214,395	-	214,395
Health and welfare	30,302	14,103	30,404	-	14,205	-	14,205
Community and economic development	3,806	600	-	-	(3,206)	-	(3,206)
Recreation and culture	36,319	7,608	389	-	(28,322)	-	(28,322)
Interest on long-term debt	18,636	-	-	-	(18,636)	-	(18,636)
Total governmental activities	<u>1,919,491</u>	<u>239,400</u>	<u>40,093</u>	<u>640,060</u>	<u>(999,938)</u>	<u>-</u>	<u>(999,938)</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Statement of Activities**  
**Year Ended February 28, 2013**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Business-type activities							
Sewer	\$ 922,373	\$ 951,467	\$ -	\$ -	\$ -	\$ 29,094	\$ 29,094
Water	<u>346,528</u>	<u>558,016</u>	<u>-</u>	<u>6,550</u>	<u>-</u>	<u>218,038</u>	<u>218,038</u>
Total business-type activities	<u>1,268,901</u>	<u>1,509,483</u>	<u>-</u>	<u>6,550</u>	<u>-</u>	<u>247,132</u>	<u>247,132</u>
Total primary government	<u>\$ 3,188,392</u>	<u>\$ 1,748,883</u>	<u>\$ 40,093</u>	<u>\$ 646,610</u>	<u>(999,938)</u>	<u>247,132</u>	<u>(752,806)</u>
General revenues							
Property taxes					1,196,715	-	1,196,715
State shared revenue					251,870	-	251,870
Unrestricted investment earnings					7,274	2,791	10,065
Gain on sale of capital assets					2,421	-	2,421
Miscellaneous					175,028	44,359	219,387
Disolution of Senior Center					<u>(312,804)</u>	<u>-</u>	<u>(312,804)</u>
Total general revenues					<u>1,320,504</u>	<u>47,150</u>	<u>1,367,654</u>
Change in net position					<u>320,566</u>	<u>294,282</u>	<u>614,848</u>
Net position - beginning of year					7,696,456	6,906,940	14,603,396
Prior period adjustment					<u>(1,215,164)</u>	<u>80,742</u>	<u>(1,134,422)</u>
Net position - beginning of year (restated)					<u>6,481,292</u>	<u>6,987,682</u>	<u>13,468,974</u>
<b>Net position - end of year</b>					<u>\$ 6,801,858</u>	<u>\$ 7,281,964</u>	<u>\$ 14,083,822</u>

See Accompanying Notes to Financial Statements



**City of Sandusky  
Governmental Funds  
Balance Sheet  
February 28, 2013**

	General	Special Revenue Funds			Other Governmental Funds *	Total Governmental Funds
		Major Street	Local Street	Airport		
<b>Assets</b>						
Cash and cash equivalents	\$ 2,491,429	\$ 324,341	\$ 576,962	\$ 22,753	\$ 76,390	\$ 3,491,875
Receivables						
Taxes	90,625	-	-	-	-	90,625
Customers	37,282	-	-	485	-	37,767
Due from other units of government	80,699	25,095	10,851	-	-	116,645
Prepaid items	34,420	335	814	-	-	35,569
<b>Total assets</b>	<u>\$ 2,734,455</u>	<u>\$ 349,771</u>	<u>\$ 588,627</u>	<u>\$ 23,238</u>	<u>\$ 76,390</u>	<u>\$ 3,772,481</u>
<b>Liabilities</b>						
Accounts payable	\$ 23,165	\$ 1,366	\$ 3,111	\$ 1,174	\$ -	\$ 28,816
Accrued and other liabilities	13,712	796	335	214	-	15,057
<b>Total liabilities</b>	<u>36,877</u>	<u>2,162</u>	<u>3,446</u>	<u>1,388</u>	<u>-</u>	<u>43,873</u>
<b>Deferred inflows of resources</b>						
Property taxes	1,154,373	-	-	-	-	1,154,373

See Accompanying Notes to Financial Statements

**City of Sandusky  
Governmental Funds  
Balance Sheet  
February 28, 2013**

	General	Special Revenue Funds			Other Governmental Funds *	Total Governmental Funds
		Major Street	Local Street	Airport		
<b>Fund balances</b>						
Non-spendable for:						
Prepaid items	\$ 34,420	\$ 335	\$ 814	\$ -	\$ -	\$ 35,569
Restricted for:						
Perpetual care	-	-	-	-	73,979	73,979
Assigned to:						
Cemetery	21,068	-	-	-	-	21,068
City Hall	30,529	-	-	-	-	30,529
Fire Hall	105,448	-	-	-	-	105,448
Industrial Park	38,539	-	-	-	-	38,539
Recreation	53,694	-	-	-	-	53,694
Police	27,544	-	-	-	-	27,544
Special revenue funds	-	347,274	584,367	21,850	2,411	955,902
Unassigned, reported in:						
General fund	<u>1,231,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,231,963</u>
 Total fund balances	 <u>1,543,205</u>	 <u>347,609</u>	 <u>585,181</u>	 <u>21,850</u>	 <u>76,390</u>	 <u>2,574,235</u>
 <b>Total liabilities, deferred inflows of resources, and fund balances</b>	 <u>\$ 2,734,455</u>	 <u>\$ 349,771</u>	 <u>\$ 588,627</u>	 <u>\$ 23,238</u>	 <u>\$ 76,390</u>	 <u>\$ 3,772,481</u>

\* Other Governmental Funds consist of Senior Citizen Housing and the Cemetery Funds

**City of Sandusky**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Position of Governmental Activities**  
**February 28, 2013**

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<b>Total fund balances for governmental funds</b>	\$ 2,574,235
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,142,896
Certain receivables are not available to pay for current period expenditures and therefore are deferred inflows in the funds.	4,627
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(11,000)
Compensated absences	(71,373)
Net other post employment obligation	(102,254)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(331,544)
Internal service funds are included as part of governmental activities.	<u>596,271</u>
<b>Net position of governmental activities</b>	<u><u>\$ 6,801,858</u></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, 2013**

	Special Revenue Fund				Other Governmental Funds *	Governmental Funds Total
	General	Major Street	Local Street	Airport		
<b>Revenues</b>						
Taxes	\$ 1,196,715	\$ -	\$ -	\$ -	\$ -	\$ 1,196,715
Licenses and permits	3,513	-	-	-	-	3,513
Federal grants	-	-	-	306,498	30,404	336,902
State revenue sharing	243,804	-	-	-	-	243,804
Other state grants	2,623	154,560	58,908	8,066	-	224,157
Local contributions	3,000	36,739	90,032	-	-	129,771
Charges for services	147,039	-	-	37,981	-	185,020
Fines and forfeitures	1,450	-	-	-	-	1,450
Interest income	4,717	419	1,201	9	242	6,588
Rental income	4,755	-	-	25,700	14,492	44,947
Other revenue	135,133	-	-	147	5,858	141,138
<b>Total revenues</b>	<b>1,742,749</b>	<b>191,718</b>	<b>150,141</b>	<b>378,401</b>	<b>50,996</b>	<b>2,514,005</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	447,103	-	-	-	-	447,103
Public safety	516,021	-	-	-	-	516,021
Public works	342,678	72,984	120,808	74,209	-	610,679
Health and welfare	-	-	-	-	30,302	30,302
Community and economic development	3,806	-	-	-	-	3,806
Recreation and culture	31,402	-	-	-	-	31,402
Other functions	21,000	-	-	-	-	21,000
Capital outlay	34,483	106,151	157,455	314,564	-	612,653
Debt service						
Principal retirement	88,944	-	-	-	-	88,944
Interest and fiscal charges	19,636	-	-	-	-	19,636
<b>Total expenditures</b>	<b>1,505,073</b>	<b>179,135</b>	<b>278,263</b>	<b>388,773</b>	<b>30,302</b>	<b>2,381,546</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>237,676</b>	<b>12,583</b>	<b>(128,122)</b>	<b>(10,372)</b>	<b>20,694</b>	<b>132,459</b>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended February 28, 2013**

	Special Revenue Fund				Other Governmental Funds *	Governmental Funds Total
	General	Major Street	Local Street	Airport		
<b>Other financing sources (uses)</b>						
Transfers in	\$ -	\$ -	\$ 150,000	\$ 12,250	\$ 1,135	\$ 163,385
Transfers out	(163,385)	-	-	-	-	(163,385)
Issuance of debt	22,910	-	-	-	-	22,910
Dissolution of Senior Center	-	-	-	-	(312,804)	(312,804)
Sale of fixed assets	2,421	-	-	-	-	2,421
	<u>(138,054)</u>	<u>-</u>	<u>150,000</u>	<u>12,250</u>	<u>(311,669)</u>	<u>(287,473)</u>
Total other financing sources (uses)						
Net change in fund balance	99,622	12,583	21,878	1,878	(290,975)	(155,014)
Fund balance - beginning of year	<u>1,443,583</u>	<u>335,026</u>	<u>563,303</u>	<u>19,972</u>	<u>367,365</u>	<u>2,729,249</u>
<b>Fund balance - end of year</b>	<u>\$ 1,543,205</u>	<u>\$ 347,609</u>	<u>\$ 585,181</u>	<u>\$ 21,850</u>	<u>\$ 76,390</u>	<u>\$ 2,574,235</u>

\* Other Governmental Funds consist of Senior Housing and the Cemetery Funds

**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, 2013**

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<b>Net change in fund balances - total governmental funds</b>	<b>\$ (155,014)</b>
Total change in net position reported for governmental activities in the statement of activities is different because:	
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	(230,390)
Capital outlay	605,757
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Special assessments	1,676
Expenses are recorded when incurred in the statement of activities.	
Accrued interest	1,000
Compensated absences	11,783
Net other post employment obligation	(27,417)
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 position, 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 position.	
Debt issued	(22,910)
Repayments of long-term debt	88,944
Forgiveness of debt	34,073
Internal service funds are also included as governmental activities.	13,064
<b>Change in net position of governmental activities</b>	<b>\$ 320,566</b>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Net Position**  
**February 28, 2013**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 957,385	\$ 655,360	\$ 1,612,745	\$ 534,224
Receivables				
Customers	237,326	144,448	381,774	7,942
Due from other units of government	-	-	-	625
Due from other funds	15,825	36,873	52,698	-
Prepaid items	4,762	1,277	6,039	240
Total current assets	<u>1,215,298</u>	<u>837,958</u>	<u>2,053,256</u>	<u>543,031</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	317,912	405,443	723,355	-
Capital assets, net of accumulated depreciation	<u>8,570,286</u>	<u>2,933,979</u>	<u>11,504,265</u>	<u>134,550</u>
Total noncurrent assets	<u>8,888,198</u>	<u>3,339,422</u>	<u>12,227,620</u>	<u>134,550</u>
Total assets	<u>10,103,496</u>	<u>4,177,380</u>	<u>14,280,876</u>	<u>677,581</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	10,127	5,542	15,669	4,615
Accrued and other liabilities	103,599	27,120	130,719	113
Due to other funds	30,220	-	30,220	-
Current portion of noncurrent liabilities	<u>70,000</u>	<u>101,000</u>	<u>171,000</u>	<u>-</u>
Total current liabilities	<u>213,946</u>	<u>133,662</u>	<u>347,608</u>	<u>4,728</u>

See Accompanying Notes to Financial Statements

**City of Sandusky  
Proprietary Funds  
Statement of Net Position  
February 28, 2013**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Noncurrent liabilities				
Long-term debt net of current portion	\$ 4,892,652	\$ 1,793,869	\$ 6,686,521	\$ -
Other post employment benefit obligation	33,410	7,955	41,365	-
Total noncurrent liabilities	4,926,062	1,801,824	6,727,886	-
Total liabilities	5,140,008	1,935,486	7,075,494	4,728
<b>Net position</b>				
Net investment in capital assets	3,649,286	1,055,979	4,705,265	134,550
Restricted for:				
Debt	317,912	405,443	723,355	-
Bond redemption	229,321	76,794	306,115	-
Repair, replacement and improvement	62,377	136,734	199,111	-
Unrestricted	704,592	566,944	1,271,536	538,303
<b>Total net position</b>	\$ 4,963,488	\$ 2,241,894	7,205,382	\$ 672,853
Some amounts reported for business-type activities in the statement of net position are different because certain internal service funds assets and liabilities are reported with business-type activities			76,582	
<b>Net position of business-type activities</b>			\$ 7,281,964	

See Accompanying Notes to Financial Statements



**City of Sandusky**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended February 28, 2013**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Operating revenue</b>				
Customer fees	\$ 889,717	\$ 558,016	\$ 1,447,733	\$ -
Billings to other funds	-	-	-	109,125
Connection fees	61,750	-	61,750	-
Other revenue	<u>30,438</u>	<u>13,921</u>	<u>44,359</u>	<u>-</u>
Total operating revenue	<u>981,905</u>	<u>571,937</u>	<u>1,553,842</u>	<u>109,125</u>
<b>Operating expenses</b>				
Personnel services	275,275	75,096	350,371	16,281
Supplies	19,524	16,785	36,309	19,163
Contractual services	21,201	3,140	24,341	668
Utilities	103,157	34,408	137,565	-
Repairs and maintenance	34,558	24,396	58,954	19,497
Other expenses	6,118	23,510	29,628	6,199
Depreciation	<u>258,345</u>	<u>91,294</u>	<u>349,639</u>	<u>31,979</u>
Total operating expenses	<u>718,178</u>	<u>268,629</u>	<u>986,807</u>	<u>93,787</u>
Operating income	<u>263,727</u>	<u>303,308</u>	<u>567,035</u>	<u>15,338</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended February 28, 2013**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Nonoperating revenue (expenses)</b>				
Interest income	\$ 576	\$ 2,215	\$ 2,791	\$ 686
Interest expense	(204,394)	(80,660)	(285,054)	-
 Total nonoperating revenues (expenses)	(203,818)	(78,445)	(282,263)	686
 Income before contributions	59,909	224,863	284,772	16,024
 Capital contributions - other	-	6,550	6,550	-
 Change in net position	59,909	231,413	291,322	16,024
 Net position - beginning of year	4,903,579	1,929,739		656,829
 Prior period adjustment	-	80,742		-
 Net position - beginning of year (restated)	4,903,579	2,010,481		656,829
 <b>Net position - end of year</b>	<b>\$ 4,963,488</b>	<b>\$ 2,241,894</b>		<b>\$ 672,853</b>
 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			2,960	
 <b>Change in net position of business-type activities</b>			<b>\$ 294,282</b>	

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended February 28, 2013**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 983,653	\$ 578,522	\$ 1,562,175	\$ 1,454
Payments to other funds	-	(11,118)	(11,118)	101,183
Payments from other funds	11,118	-	11,118	-
Payments to suppliers	(185,248)	(81,464)	(266,712)	(43,569)
Payments to employees	(275,275)	(75,096)	(350,371)	(16,281)
Payments for interfund services used	(1,405)	(19,662)	(21,067)	-
	<u>532,843</u>	<u>391,182</u>	<u>924,025</u>	<u>42,787</u>
<b>Net cash provided by operating activities</b>				
<b>Cash flows from capital and related financing activities</b>				
Capital contributions	-	6,550	6,550	-
Purchases/construction of capital assets	(11,118)	(42,176)	(53,294)	-
Principal and interest paid on long-term debt	(265,280)	(177,268)	(442,548)	-
	<u>(276,398)</u>	<u>(212,894)</u>	<u>(489,292)</u>	<u>-</u>
<b>Net cash used by capital and related financing activities</b>				
<b>Cash flows from investing activities</b>				
Interest received	576	2,215	2,791	686
	<u>576</u>	<u>2,215</u>	<u>2,791</u>	<u>686</u>
<b>Net change in cash and cash equivalents</b>				
	257,021	180,503	437,524	43,473
Cash and cash equivalents - beginning of year	1,018,276	880,300	1,898,576	490,751
	<u>1,018,276</u>	<u>880,300</u>	<u>1,898,576</u>	<u>490,751</u>
<b>Cash and cash equivalents - end of year</b>				
	<u>\$ 1,275,297</u>	<u>\$ 1,060,803</u>	<u>\$ 2,336,100</u>	<u>\$ 534,224</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended February 28, 2013**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income	\$ 263,727	\$ 303,308	\$ 567,035	\$ 15,338
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	258,345	91,294	349,639	31,979
Changes in assets and liabilities				
Receivables (net)	1,748	6,585	8,333	(5,863)
Due from other units of government	-		-	(625)
Due from other funds	-	(11,118)	(11,118)	-
Prepaid items	(4,762)	(1,277)	(6,039)	(240)
Accounts payable	7,779	3,593	11,372	2,577
Accrued and other liabilities	(5,112)	(1,203)	(6,315)	(379)
Due to other funds	11,118	-	11,118	-
	<u>\$ 532,843</u>	<u>\$ 391,182</u>	<u>\$ 924,025</u>	<u>\$ 42,787</u>
<b>Net cash provided by operating activities</b>				

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Fiduciary Funds**  
**Statement of Net Position**  
**February 28, 2013**

	Employee Sick Pay Trust Fund	Pension Trust Fund	Employee Health Care Trust Fund	Total Pension and Other Employee Benefit Trust Funds	Agency Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 94,636	\$ -	\$ 133,478	\$ 228,114	\$ 639,355
Investments	-	60,633	-	60,633	-
Accrued interest and other	-	-	5	5	-
Total assets	<u>94,636</u>	<u>60,633</u>	<u>133,483</u>	<u>288,752</u>	<u>\$ 639,355</u>
<b>Liabilities</b>					
Due to other funds	22,478	-	-	22,478	\$ -
Due to other units of government	-	-	-	-	639,355
Total liabilities	<u>22,478</u>	<u>-</u>	<u>-</u>	<u>22,478</u>	<u>\$ 639,355</u>
<b>Net position</b>					
Held in trust for pension benefits and other purposes	<u>\$ 72,158</u>	<u>\$ 60,633</u>	<u>\$ 133,483</u>	<u>\$ 266,274</u>	

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Fiduciary Funds**  
**Statement of Changes in Net Position**  
**Year Ended February 28, 2013**

	Employee Sick Pay Trust Fund	Pension Trust Fund	Employee Health Care Trust Fund	Total Pension and Other Employee Benefit Trust Funds
<b>Additions</b>				
Contributions				
Employer	\$ -	\$ -	\$ 21,000	\$ 21,000
<b>Investment earnings</b>				
Investment income	191	7,151	228	7,570
Total additions	191	7,151	21,228	28,570
<b>Deductions</b>				
Benefits	5,858	-	-	5,858
Change in net position	(5,667)	7,151	21,228	22,712
Net position - beginning of year	77,825	53,482	112,255	243,562
<b>Net position - end of year</b>	<b>\$ 72,158</b>	<b>\$ 60,633</b>	<b>\$ 133,483</b>	<b>\$ 266,274</b>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2013**

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**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 position and the statement of activities) 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 revenue items are considered to be measurable and available only when cash is received by the government.

**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2013**

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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 is for major street project resources and expenditures.

The Local Street Fund is for local street project resources and expenditures.

The Airport Fund is for airport project resources and expenditures.

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.

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.

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 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.



**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2013**

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**Assets, liabilities, and net position 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 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

The 2011 taxable valuation of the government totaled \$64,148,765, on which ad valorem taxes consisted of 19 mills for operating purposes. This resulted in \$1,218,827 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.

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

Deferred inflows of resources - A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

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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 position. Bond premiums and discounts 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.

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.

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.

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**Comparative data**

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

**Adoption of New Accounting Standard**

The Government Accounting Standards Board 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, which the government adopted effective March 1, 2012. 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.

As a result of these new standards, the City no longer recognized unavailable property tax revenue levied in 2012 to be used for 2013 operations as revenue in the Statement of Activities. The effect of this change on beginning net position on the government-wide statements is as follows:

	As Originally Reported	Adjustment	As Restated
Governmental Activities			
Net Position beginning of year	\$ 7,696,456	\$ (1,215,164)	\$ 6,481,292

**Upcoming Accounting and Reporting Changes**

The Government Accounting Standards Board has also issued Statements 67, Financial Reporting for Pension Plans and 68 Accounting and Financial Reporting for Pensions. Statement 67 changes how public employee pension plans calculate and report their total pension liability. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 67 is effective for the year ending February 28, 2015 and Statement 68 is effective for the year ending February 29, 2016.

**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.

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**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:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Debt service	102,200	108,580	6,380
Airport Fund			
Capital outlay	-	314,564	314,564

**NOTE 3 - DEPOSITS AND INVESTMENTS**

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

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Restricted Cash and Cash Equivalents</u>	<u>Total</u>
Governmental activities	\$ 4,026,099	\$ -	\$ -	\$ 4,026,099
Business-type activities	<u>1,612,745</u>	<u>-</u>	<u>723,355</u>	<u>2,336,100</u>
 Total primary government	 5,638,844	 -	 723,355	 6,362,199
 Fiduciary funds	 <u>867,469</u>	 <u>60,633</u>	 <u>-</u>	 <u>928,102</u>
 Total	 <u>\$ 6,506,313</u>	 <u>\$ 60,633</u>	 <u>\$ 723,355</u>	 <u>\$ 7,290,301</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)	\$ 367,917	\$ 1,936,612
Investments in securities, mutual funds and similar vehicles	4,924,524	60,633
Petty cash and cash on hand	<u>615</u>	<u>-</u>
	<u>\$ 5,293,056</u>	<u>\$ 1,997,245</u>

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

Investment	Fair Value	Maturities	Rating
American Life Annuity	\$ 9,833		Unrated
DWS High Income Fund A	50,800	Daily	Unrated
Chase High Yield Savings	<u>4,924,524</u>	Daily	Unrated
	<u>\$4,985,157</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, all deposits were insured and collateralized.

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.

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**NOTE 4 - CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 692,258	\$ -	\$ -	\$ 692,258
Construction in progress	-	323,239	-	323,239
<b>Total capital assets not being depreciated</b>	<b>692,258</b>	<b>323,239</b>	<b>-</b>	<b>1,015,497</b>
Capital assets being depreciated				
Land improvements	660,028	-	-	660,028
Infrastructure	1,905,383	253,683	-	2,159,066
Buildings, additions and improvements	1,263,166	5,950	-	1,269,116
Machinery and equipment	659,996	-	-	659,996
Vehicles	284,852	22,885	20,000	287,737
<b>Total capital assets being depreciated</b>	<b>4,773,425</b>	<b>282,518</b>	<b>20,000</b>	<b>5,035,943</b>
Less accumulated depreciation for				
Land improvements	120,069	29,272	-	149,341
Infrastructure	395,915	132,664	-	528,579
Buildings, additions and improvements	237,739	50,871	-	288,610
Machinery and equipment	516,655	38,399	-	555,054
Vehicles	261,247	11,163	20,000	252,410
<b>Total accumulated depreciation</b>	<b>1,531,625</b>	<b>262,369</b>	<b>20,000</b>	<b>1,773,994</b>
<b>Net capital assets being depreciated</b>	<b>3,241,800</b>	<b>20,149</b>	<b>-</b>	<b>3,261,949</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 3,934,058</b>	<b>\$ 343,388</b>	<b>\$ -</b>	<b>\$ 4,277,446</b>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets being depreciated				
Machinery and equipment	\$ 273,925	\$ 11,118	-	\$ 285,043
Water system	4,056,849	42,176	-	4,099,025
Sewer system	12,142,512	-	-	12,142,512
<b>Total capital assets being depreciated</b>	<b>16,473,286</b>	<b>53,294</b>	<b>-</b>	<b>16,526,580</b>
Less accumulated depreciation for				
Machinery and equipment	235,767	12,899	-	248,666
Water system	1,073,752	91,294	-	1,165,046
Sewer system	3,363,157	245,446	-	3,608,603
<b>Total accumulated depreciation</b>	<b>4,672,676</b>	<b>349,639</b>	<b>-</b>	<b>5,022,315</b>
<b>Business-type capital assets, net</b>	<b>\$ 11,800,610</b>	<b>\$ (296,345)</b>	<b>-</b>	<b>\$ 11,504,265</b>

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

<b>Governmental activities</b>		
General government		\$ 145,146
Public safety		85,244
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>
<b>Total governmental activities</b>		<u>262,369</u>
<b>Business-type activities</b>		
Sewer		258,345
Water		<u>91,294</u>
<b>Total business-type activities</b>		<u>349,639</u>
<b>Total primary government</b>		<u>\$ 612,008</u>

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**NOTE 5 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due from/to other funds</b>		
Water	Sewer	\$ 11,118
Water	Sewer	19,102
Sewer	Tax	15,825
Water	Sewer	<u>6,653</u>
		<u>\$ 52,698</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	\$ 150,000
General	Airport	12,250
General	Cemetery	<u>1,135</u>
		<u>\$ 163,385</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.

**NOTE 6 - 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>	
2014	\$ 8,138
2015	<u>8,102</u>
Total minimum lease payments	16,240
Less amount representing interest	<u>758</u>
Present value of minimum lease payments	<u>\$ 15,482</u>
Asset	
Machinery and equipment	\$ 22,885
Less accumulated depreciation	<u>2,724</u>
Total	<u>\$ 20,161</u>

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**NOTE 7 - 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	Adjustments *	Ending Balance	Due Within One Year
<b>Governmental activities</b>										
Bonds and notes payable										
Installment purchase agreements										
2003 Vacant Land	\$ 225,000	3/4/18	3.65%	\$ 14,090 - 20,113	\$ 123,666	\$ -	\$ 15,386	\$ -	\$ 108,280	\$ 15,942
2004 Michigan Economic Dev. Corporation	384,152	11/1/13	5.00%	6,455 - 10,765	79,076	-	41,180	34,073	3,823	3,823
2006 Vacant Land	300,000	6/30/21	3.89%	16,328 - 27,032	<u>221,854</u>	<u>-</u>	<u>17,895</u>	<u>-</u>	<u>203,959</u>	<u>18,294</u>
Total bonds and notes payable					424,596	-	74,461	34,073	316,062	38,059
Capital leases										
2011 Police Car Lease	21,194	2/21/2013	6.25%	6,625 - 7,066	7,055	-	7,055	-	-	-
2012 Police Car Lease	22,910	4/20/14	3.25%	7,428 - 7,847	-	22,910	7,428	-	15,482	7,635
Compensated absences					<u>83,156</u>	<u>-</u>	<u>11,783</u>	<u>-</u>	<u>71,373</u>	<u>-</u>
Total governmental activities					<u>\$ 514,807</u>	<u>\$ 22,910</u>	<u>\$ 100,727</u>	<u>\$ 34,073</u>	<u>\$ 402,917</u>	<u>\$ 45,694</u>

\*\$34,073 in the 2004 MEDC loan was forgiven due to the City meeting certain loan requirements.



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	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type activities</b>									
Bonds and notes payable									
General obligation bonds									
Water Supply System Revenue									
Bonds, Series 2011	\$ 840,000	11/1/21	4.025%	\$ 91,000 - 29,000	\$ 749,000	\$ -	\$ 77,000	\$ 672,000	\$ 81,000
Sewage Disposal System Revenue									
Bonds, Series 2005A	3,690,000	9/1/45	4.125%	42,000 - 187,000	3,452,000	-	46,000	3,406,000	48,000
Sewage Disposal System Revenue									
Bonds, Series 2005B	1,650,000	9/1/45	4.125%	20,000 - 87,000	1,537,000	-	22,000	1,515,000	22,000
Water Supply System Junior Lien									
Revenue Bonds, Series 2005A	1,346,000	11/1/45	4.25%	20,000 - 64,000	<u>1,226,000</u>	<u>-</u>	<u>20,000</u>	<u>1,206,000</u>	<u>20,000</u>
Total bonds payable					6,964,000	-	165,000	6,799,000	171,000
Compensated absences					<u>60,095</u>	<u>-</u>	<u>1,574</u>	<u>58,521</u>	<u>-</u>
Total business-type activities					<u>\$ 7,024,095</u>	<u>\$ -</u>	<u>\$ 166,574</u>	<u>\$ 6,857,521</u>	<u>\$ 171,000</u>

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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
2014	\$ 46,294	\$ 15,327	\$ 171,000	\$ 280,470
2015	44,294	13,136	172,000	273,513
2016	38,133	11,195	184,000	266,371
2017	39,890	9,438	197,000	258,804
2018	41,742	7,586	198,000	250,757
2019-2023	121,191	13,037	865,000	1,140,666
2024-2028	-	-	733,000	980,773
2029-2033	-	-	881,000	817,460
2034-2038	-	-	1,090,000	618,189
2039-2043	-	-	1,346,000	371,785
2044-2048	-	-	962,000	81,187
	<u>\$ 331,544</u>	<u>\$ 69,719</u>	<u>\$ 6,799,000</u>	<u>\$ 5,339,975</u>

**NOTE 8 - 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 9 - 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, 2013 are as follows:

	<u>Cost</u>	<u>Market</u>
DWS Investments	\$ 50,800	\$ 50,800
American Life Annuity	<u>9,833</u>	<u>9,833</u>
Total	<u>\$ 60,633</u>	<u>\$ 60,633</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

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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 2013, the government’s annual pension cost of \$153,508 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:

<b>Three Year Trend Information</b>			
Fiscal Year Ending	Annual Required Contribution	Percentage of APC Contributed	Net Pension Obligation
2/28/2011	\$ 134,028	100%	-
2/29/2012	141,085	100%	-
2/28/2013	153,508	100%	-

<b>Schedule of Funding Progress</b>	
Actuarial valuation date	12/31/2012
Actuarial value of assets	\$ 2,201,017
Actuarial accrued liabilities	3,823,882
Unfunded AAL (UAAL)	1,622,865
Funded ratio	57.6%
Covered payroll	835,475
UAAL as a percentage of covered payroll	194%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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**NOTE 10 - 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.

**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	\$	46,097
Contributions made to OPEB		9,600
Change in net OPEB obligation		36,497
Net OPEB liability, beginning of year		107,122
Net OPEB liability, end of year	\$	143,619

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

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 47,145	20%	\$ 74,187
2012	42,535	20%	107,122
2013	46,097	20%	143,619

**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, 2013, the City contributed \$9,600 to the Plan. As of February 28, 2013, the actuarial accrued liability for benefits was \$137,441. 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

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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 11 - 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		-
Sewer Fund	28,252		-

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. Prior to refinancing debt in 2012, there was an annual reserve for RRI, these accounts are still held, but no annual additions are required. The following summarizes the transactions in the reserve accounts for the fiscal year ended February 28, 2013.

	Water Fund		
	Bond Reserve	RRI Reserve	Total
Beginning Balance	\$ 76,724	\$ 136,608	\$ 213,332
Interest	70	126	196
Ending Balance	\$ 76,794	\$ 136,734	\$ 213,528

  

	Sewer Fund		
	Bond Reserve	RRI Reserve	Total
Beginning Balance	\$ 229,215	\$ 62,351	\$ 291,566
Interest	106	26	132
Ending Balance	\$ 229,321	\$ 62,377	\$ 291,698

At February 28, 2013, the reserve accounts were in compliance with the minimum balance set forth by Rural Development.

**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2013**

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**NOTE 12 - PRIOR PERIOD ADJUSTMENT**

During the audit it was noted that assets related to a well were expensed and not capitalized. The well house and related drilling were expensed in 2001 and not capitalized and depreciated. The assets were purchased pre GASB 34 and the City found the uncapitalized assets in the annual review of fixed assets and brought it to our attention. The effect of capitalizing these assets and recording the appropriate accumulated depreciation resulted in a prior period adjustment of net position in the Water Fund of \$80,742. The adjustment was properly posted by management. Note 4 properly restates the beginning balance in the Water system asset and related accumulated depreciation to reflect this adjustment.

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended February 28, 2013**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Taxes				
Property taxes	\$ 1,218,000	\$ 1,218,000	\$ 1,195,871	\$ (22,129)
Penalties and interest	600	600	844	244
Licenses and permits	3,500	3,500	3,513	13
State revenue sharing	218,000	218,000	243,804	25,804
State grants	1,500	1,500	2,623	1,123
Local contributions	5,400	5,400	3,000	(2,400)
Charges for services	132,950	139,050	147,039	7,989
Fines and forfeitures	400	400	1,450	1,050
Interest income	7,200	7,200	4,717	(2,483)
Rental income	3,200	3,200	4,755	1,555
Other revenue	72,650	130,550	135,133	4,583
Sale of fixed assets	3,000	3,000	2,421	(579)
Note proceeds	-	22,910	22,910	-
Transfer in	20,600	20,600	-	(20,600)
	<u>1,687,000</u>	<u>1,773,910</u>	<u>1,768,080</u>	<u>(5,830)</u>
Total revenues				

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended February 28, 2013**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Expenditures</b>				
General government				
City Council	\$ 12,320	\$ 13,465	\$ 13,078	\$ (387)
Manager	126,650	128,250	122,047	(6,203)
Clerk	74,790	75,060	68,741	(6,319)
Board of review	1,000	500	483	(17)
Treasurer	20,500	21,975	21,875	(100)
Assessor	13,850	13,300	12,693	(607)
Elections	2,800	5,310	5,087	(223)
Buildings and grounds	196,700	203,325	170,203	(33,122)
Cemetery	32,430	36,570	32,896	(3,674)
Total general government	<u>481,040</u>	<u>497,755</u>	<u>447,103</u>	<u>(50,652)</u>
Public safety				
Police	436,950	475,890	458,169	(17,721)
Fire department	58,000	58,000	57,852	(148)
Building inspection department	1,000	-	-	-
Total public safety	<u>495,950</u>	<u>533,890</u>	<u>516,021</u>	<u>(17,869)</u>
Public works				
Department of public works	141,890	134,390	124,191	(10,199)
Sidewalks	11,550	4,340	3,241	(1,099)
Street lighting	77,000	83,300	89,211	5,911
Sanitary land fill	120,400	126,200	126,035	(165)
Total public works	<u>350,840</u>	<u>348,230</u>	<u>342,678</u>	<u>(5,552)</u>



**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended February 28, 2013**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Community and economic development				
Planning	\$ 600	\$ 2,470	\$ 1,860	\$ (610)
Zoning	600	2,200	1,946	(254)
Total community and economic development	<u>1,200</u>	<u>4,670</u>	<u>3,806</u>	<u>(864)</u>
Recreation and culture				
Parks and recreation	<u>36,170</u>	<u>36,270</u>	<u>31,402</u>	<u>(4,868)</u>
Other functions				
Unallocated employee fringe benefits	<u>21,000</u>	<u>21,000</u>	<u>21,000</u>	<u>-</u>
Capital outlay	<u>38,600</u>	<u>66,510</u>	<u>34,483</u>	<u>(32,027)</u>
Debt service				
Principal retirement	82,500	82,500	88,944	6,444
Interest and fiscal charges	<u>19,700</u>	<u>19,700</u>	<u>19,636</u>	<u>(64)</u>
Total debt service	<u>102,200</u>	<u>102,200</u>	<u>108,580</u>	<u>6,380</u>
Transfers out	<u>160,000</u>	<u>163,385</u>	<u>163,385</u>	<u>-</u>
Total expenditures	<u>1,687,000</u>	<u>1,773,910</u>	<u>1,668,458</u>	<u>(105,452)</u>
Excess of revenues over expenditures	-	-	99,622	99,622
Fund balance - beginning of year	<u>1,443,583</u>	<u>1,443,583</u>	<u>1,443,583</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u><u>\$ 1,443,583</u></u>	<u><u>\$ 1,443,583</u></u>	<u><u>\$ 1,543,205</u></u>	<u><u>\$ 99,622</u></u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**Year Ended February 28, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Revenues</b>				
Other state grants	\$ 165,000	\$ 165,000	\$ 154,560	\$ (10,440)
Local contributions	30,000	30,000	36,739	6,739
Interest income	300	300	419	119
Other revenue	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
Total revenues	<u>295,300</u>	<u>295,300</u>	<u>191,718</u>	<u>(103,582)</u>
<b>Expenditures</b>				
Current				
Public works	125,300	125,300	72,984	(52,316)
Capital outlay	<u>170,000</u>	<u>170,000</u>	<u>106,151</u>	<u>(63,849)</u>
Total expenditures	<u>295,300</u>	<u>295,300</u>	<u>179,135</u>	<u>(116,165)</u>
Excess (deficiency) of revenues over expenditures	-	-	12,583	12,583
Fund balance - beginning of year	<u>335,026</u>	<u>335,026</u>	<u>335,026</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 335,026</u>	<u>\$ 335,026</u>	<u>\$ 347,609</u>	<u>\$ 12,583</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**Year Ended February 28, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Revenues</b>				
Other state grants	\$ 58,000	\$ 58,000	\$ 58,908	\$ 908
Local contributions	95,000	95,000	90,032	(4,968)
Interest income	1,800	1,800	1,201	(599)
Other revenue	200,000	200,000	-	(200,000)
Transfers in	150,000	150,000	150,000	-
Total revenues	<u>504,800</u>	<u>504,800</u>	<u>300,141</u>	<u>(204,659)</u>
<b>Expenditures</b>				
Current				
Public works	198,050	198,050	120,808	(77,242)
Capital outlay	306,750	306,750	157,455	(149,295)
Total expenditures	<u>504,800</u>	<u>504,800</u>	<u>278,263</u>	<u>(226,537)</u>
Excess of revenues over expenditures	-	-	21,878	21,878
Fund balance - beginning of year	<u>563,303</u>	<u>563,303</u>	<u>563,303</u>	-
<b>Fund balance - end of year</b>	<u>\$ 563,303</u>	<u>\$ 563,303</u>	<u>\$ 585,181</u>	<u>\$ 21,878</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Airport Fund**  
**Year Ended February 28, 2013**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Federal grants	\$ -	\$ -	\$ 306,498	\$ 306,498
Other state grants	-	-	8,066	8,066
Charges for services	22,000	36,800	37,981	1,181
Interest income	25	25	9	(16)
Rental income	26,000	26,000	25,700	(300)
Other revenue	-	-	147	147
Transfers in	9,000	12,250	12,250	-
Total revenues	<u>57,025</u>	<u>75,075</u>	<u>390,651</u>	<u>315,576</u>
<b>Expenditures</b>				
Current				
Public works	57,025	75,075	74,209	(866)
Capital outlay	-	-	314,564	314,564
Total expenditures	<u>57,025</u>	<u>75,075</u>	<u>388,773</u>	<u>313,698</u>
Excess of revenues over expenditures	-	-	1,878	1,878
Fund balance - beginning of year	<u>19,972</u>	<u>19,972</u>	<u>19,972</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 19,972</u>	<u>\$ 19,972</u>	<u>\$ 21,850</u>	<u>\$ 1,878</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Schedule of Funding Progress - Other Post Employment Benefits**  
**February 28, 2013**

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%
2/29/12	-	387,000	387,000	0%
2/28/13	-	317,000	317,000	0%

**City of Sandusky**  
**Required Supplemental Information**  
**Schedule of Employer Contributions - Other Post Employment Benefits**  
**February 28, 2013**

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Year Ended	Annual Required Contribution	Actual Contribution	Percent Contributed
2/28/11	47,145	9,600	20%
2/29/12	42,535	9,600	23%
2/28/13	41,662	9,600	23%

The information presented above was determined as part of the valuations at the date incurred. Additional information as of February 28, 2013, the latest actuarial valuation, follows:

Valuation cost method	Entry level
Amortization method	Years of services
Amortization period	10 years
Asset valuation method	10-year smoothed market
Valuation assumptions:	
Investment rate of return	1.0%

**City of Sandusky**  
**Required Supplemental Information**  
**Municipal Employees Retirement System of Michigan**  
**February 28, 2013**

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**Schedule of Employer Contributions**

Fiscal Year Ending	Annual Required Contribution	Percentage of APC Contributed
2/28/2011	\$ 134,028	100%
2/29/2012	141,085	100%
2/28/2013	153,508	100%

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	\$ 2,044,460	\$ 3,753,255	\$ 1,708,795	54.5%	\$ 798,545	214.0%
12/31/2011	2,120,863	3,812,543	1,691,680	55.6%	831,927	203.3%
12/31/2012	2,201,017	3,823,882	1,622,865	57.6%	835,475	194.2%

**City of Sandusky**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**February 28, 2013**

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	<u>Special Revenue Fund</u>	<u>Permanent Fund</u>	
	<u>Senior Citizen Housing</u>	<u>Cemetery</u>	<u>Total Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,411	\$ 73,979	\$ 76,390
<b>Total assets</b>	<u>\$ 2,411</u>	<u>\$ 73,979</u>	<u>\$ 76,390</u>
<b>Fund balances</b>			
Non-spendable for:			
Perpetual care	-	73,979	73,979
Assigned, reported in:			
Special revenue funds	<u>2,411</u>	<u>-</u>	<u>2,411</u>
<b>Total fund balances</b>	<u>\$ 2,411</u>	<u>\$ 73,979</u>	<u>\$ 76,390</u>



**City of Sandusky**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended February 28, 2013**

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	Special Revenue Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Senior Citizen Housing	Cemetery	
<b>Revenues</b>			
Federal grants	\$ 30,404	\$ -	\$ 30,404
Interest income	96	146	242
Rental income	14,492	-	14,492
Other revenue	5,858	-	5,858
Total revenues	50,850	146	50,996
<b>Expenditures</b>			
Current			
Health and welfare	30,302	-	30,302
Excess (deficiency) of revenues over expenditures	20,548	146	20,694

**City of Sandusky**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended February 28, 2013**

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	<u>Special Revenue Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Senior Citizen Housing</u>	<u>Cemetery</u>	
<b>Other financing sources</b>			
Transfers in	\$ -	\$ 1,135	\$ 1,135
Dissolution of Senior Center	<u>(312,804)</u>	<u>-</u>	<u>(312,804)</u>
Total other financing sources and uses	<u>(312,804)</u>	<u>1,135</u>	<u>(311,669)</u>
Net change in fund balance	(292,256)	1,281	(290,975)
Fund balance - beginning of year	<u>294,667</u>	<u>72,698</u>	<u>367,365</u>
<b>Fund balance - end of year</b>	<u><u>\$ 2,411</u></u>	<u><u>\$ 73,979</u></u>	<u><u>\$ 76,390</u></u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2013**

<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>
<b>Governmental Activities</b>						
2003 Installment Loan - Vacant Land	3.65%	3/4/13	\$ 15,942	\$ 4,284	\$ -	\$ 20,226
Amount of issue - \$225,000	3.65%	3/4/14	16,856	3,370	-	20,226
	3.65%	3/4/15	17,471	2,755	-	20,226
	3.65%	3/4/16	18,103	2,123	-	20,226
	3.65%	3/4/17	18,769	1,457	-	20,226
	3.65%	3/4/18	21,134	771	-	21,905
			<u>\$ 108,275</u>	<u>\$ 14,760</u>	<u>\$ -</u>	<u>\$ 123,035</u>
2004 Michigan Economic Dev. Corporation	5.00%	11/1/13	<u>\$ 3,823</u>	<u>\$ 332</u>	<u>\$ -</u>	<u>\$ 4,155</u>
2006 Installment Loan - Vacant Land	3.89%	7/12/13	\$ 18,294	\$ 9,157	\$ -	\$ 27,451
Amount of issue - \$300,000	3.89%	7/12/14	20,229	7,222	-	27,451
	3.89%	7/12/15	21,016	6,435	-	27,451
	3.89%	7/12/16	21,833	5,618	-	27,451
	3.89%	7/12/17	22,683	4,768	-	27,451
	3.89%	7/12/18	23,565	3,886	-	27,451
	3.89%	7/12/19	24,482	2,969	-	27,451
	3.89%	7/12/20	25,434	2,017	-	27,451
	3.89%	7/12/21	26,424	1,027	-	27,451
			<u>\$ 203,960</u>	<u>\$ 43,099</u>	<u>\$ -</u>	<u>\$ 247,059</u>
2012 Police Car Lease	3.25%	4/20/13	\$ 7,635	\$ 503	\$ -	\$ 8,138
	3.25%	4/20/14	7,847	255	-	8,102
			<u>\$ 15,482</u>	<u>\$ 758</u>	<u>\$ -</u>	<u>\$ 16,240</u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2013**

<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>
<b>Business-type Activities</b>						
Water Supply System Revenue	4.025%	5/1/13	\$ 41,000	\$ 13,524	\$ -	\$ 54,524
Bonds, Series 2011	4.025%	11/1/13	40,000	12,699	-	52,699
Amount of issue - \$840,000	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>\$ 672,000</u>	<u>\$ 119,141</u>	<u>\$ -</u>	<u>\$ 791,141</u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2013**

<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>
Sewage Disposal System Revenue	4.125%	9/1/13	\$ 48,000	\$ 70,249	\$ 70,249	\$ 188,498
Bonds Series 2005 A	4.125%	9/1/14	50,000	69,259	69,259	188,518
Amount of issue - \$3,690,000	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
	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>\$ 3,406,000</u>	<u>\$ 1,457,404</u>	<u>\$ 1,457,404</u>	<u>\$ 6,320,808</u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2013**

<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>
Sewage Disposal System Revenue	4.125%	9/1/13	\$ 22,000	\$ 31,247	\$ 31,247	\$ 84,494
Bonds Series 2005 B	4.125%	9/1/14	23,000	30,793	30,793	84,586
Amount of issue - \$1,650,000	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
	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>\$ 1,515,000</u>	<u>\$ 644,366</u>	<u>\$ 644,366</u>	<u>\$ 2,803,733</u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2013**

<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>
Water Supply System Junior Lien	4.25%	11/1/13	\$ 20,000	\$ 25,628	\$ 25,628	\$ 71,256
Revenue Bonds Series 2005 A	4.25%	11/1/14	20,000	25,203	25,203	70,406
Amount of issue - \$1,346,000	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
	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>\$ 1,206,000</u>	<u>\$ 508,647</u>	<u>\$ 508,647</u>	<u>\$ 2,223,294</u>



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

**INDEPENDENT AUDITOR'S REPORT**

To the City Council  
City of Sandusky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky as of and for the year ended February 28, 2013, and the related notes to the financial statements, which collectively comprise City of Sandusky's basic financial statements and have issued our report thereon dated July 19, 2013.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control that we consider to be a material weakness.

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



## **Fixed Asset Tracking**

During the audit it was noted that assets related to a well were expensed and not capitalized. The well house and related drilling were expensed in 2001 and not capitalized and depreciated. The assets were purchased pre GASB 34 and the City found the uncapitalized assets in the annual review of fixed assets and brought to our attention. The effect of capitalizing these assets and recording the appropriate accumulated depreciation resulted in a prior period adjustment of net position in the Water Fund of \$80,742. The adjustment was properly posted by management.

Properly capitalizing and depreciating items insures an accurate financial picture of the City. Having a complete listing of the City's assets is also important so the City knows what assets they own and how much they were purchased for.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City Sandusky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
July 19, 2013