

**City of Sandusky**

**Financial Statements**

**February 28, 2015**

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**City of Sandusky**  
**List of Elected and Appointed Officials**  
**February 28, 2015**

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City Council

Thomas Lukshaitis	Mayor
Larry Mitchell	Mayor Protem
Norton Schramm	Councilperson
Virginia Bissett	Councilperson
Roger Williamson	Councilperson
Brad Harris	Councilperson
Sandra Barr	Councilperson

Other Officers and Officials

David Faber	City Manager
Laurie Burns	City Clerk
Penny Tubbs	Treasurer

## **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, 2015, 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, 2015, 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**

#### ***Prior Period Adjustments***

As discussed in Note 11 to the financial statements, the City discovered the following items for which prior period adjustments were recorded: The City recorded beginning construction in progress that was not identified previously of \$145,083. The City identified \$37,708 held in the Pension Trust Fund was truly the property of the General Fund. The City identified \$72,319 held in the Employee Sick Pay Trust Fund was truly the property of the General Fund, Water Fund, and Sewer Fund. Our opinions are not modified with respect to these matters.

### **Other Matters:**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as 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 Supplementary 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 other supplementary 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 supplementary 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. The other supplementary 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 supplementary 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2015 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 31, 2015

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2015**

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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, 2015. 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 4-3 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 3% from a year ago – increasing from \$14.6 million to \$15.1 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 \$445,000 during the year. The business-type activities experienced approximately \$34,000 increase in net position.



**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2015**

Following is an analysis of the major components of the net position of the City as of February 28, 2015 and 2014.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Assets</b>						
Other assets	\$ 4,862,658	\$4,452,994	\$2,934,950	\$3,115,203	\$ 7,797,608	\$ 7,568,197
Capital assets	4,846,173	4,141,755	11,242,594	11,208,128	16,088,767	15,349,883
Total assets	<u>9,708,831</u>	<u>8,594,749</u>	<u>14,177,544</u>	<u>14,323,331</u>	<u>23,886,375</u>	<u>22,918,080</u>
<b>Liabilities</b>						
Other liabilities	77,681	68,145	156,699	174,987	234,380	243,132
Noncurrent liabilities	916,754	487,952	6,541,954	6,723,603	7,458,708	7,211,555
Total liabilities	<u>994,435</u>	<u>556,097</u>	<u>6,698,653</u>	<u>6,898,590</u>	<u>7,693,088</u>	<u>7,454,687</u>
<b>Deferred inflows of resources</b>						
Total deferred inflows of resources	<u>1,091,652</u>	<u>1,095,600</u>	<u>-</u>	<u>-</u>	<u>1,091,652</u>	<u>1,095,600</u>
Total liabilities and deferred inflows of resources	<u>2,086,087</u>	<u>1,651,697</u>	<u>6,698,653</u>	<u>6,898,590</u>	<u>8,784,740</u>	<u>8,550,287</u>
<b>Net position</b>						
Net investment in capital assets	4,245,047	3,856,435	4,786,594	4,580,128	9,031,641	8,436,563
Restricted	1,348,801	1,129,103	1,230,132	1,229,791	2,578,933	2,358,894
Unrestricted	2,028,896	1,957,514	1,462,165	1,614,822	3,491,061	3,572,336
Total net position	<u>\$ 7,622,744</u>	<u>\$6,943,052</u>	<u>\$7,478,891</u>	<u>\$7,424,741</u>	<u>\$15,101,635</u>	<u>\$14,367,793</u>

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2015**

The following table shows the changes in net position as of the year ended.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Program revenues</b>						
Charges for services	\$ 214,487	\$ 213,950	\$ 1,384,562	\$ 1,503,337	\$ 1,599,049	\$ 1,717,287
Operating grants and contributions	8,975	9,487	-	-	8,975	9,487
Capital grants and contributions	641,843	490,090	650	7,988	642,493	498,078
<b>General revenues</b>						
Property taxes	1,080,495	1,139,218	-	-	1,080,495	1,139,218
State shared revenue	265,175	255,042	-	-	265,175	255,042
Unrestricted investment income	1,655	6,458	1,384	2,825	3,039	9,283
Gain on sale of capital assets	6,815	-	-	-	6,815	-
Miscellaneous	148,084	57,500	55,068	47,586	203,152	105,086
<b>Total revenues</b>	<u>2,367,529</u>	<u>2,171,745</u>	<u>1,441,664</u>	<u>1,561,736</u>	<u>3,809,193</u>	<u>3,733,481</u>
<b>Program expenses</b>						
General government	593,359	562,312	-	-	593,359	562,312
Public safety	622,756	630,939	-	-	622,756	630,939
Public works	665,362	784,221	-	-	665,362	784,221
Health and welfare	2,422	-	-	-	2,422	-
Community and economic development	2,517	2,741	-	-	2,517	2,741
Recreation and culture	30,690	31,591	-	-	30,690	31,591
Interest on long-term debt	5,591	18,747	-	-	5,591	18,747
Sewer	-	-	961,519	977,857	961,519	977,857
Water	-	-	446,246	441,101	446,246	441,101
<b>Total expenses</b>	<u>1,922,697</u>	<u>2,030,551</u>	<u>1,407,765</u>	<u>1,418,958</u>	<u>3,330,462</u>	<u>3,449,509</u>
<b>Change in net position</b>	<u>444,832</u>	<u>141,194</u>	<u>33,899</u>	<u>142,778</u>	<u>478,731</u>	<u>283,972</u>
Net position - beginning of year	6,943,052	6,801,858	7,424,742	7,281,964	14,367,794	14,083,822
Prior period adjustment	234,860	-	20,250	-	255,110	-
Net position - beginning of year (restated)	<u>7,177,912</u>	<u>-</u>	<u>7,444,992</u>	<u>-</u>	<u>14,622,904</u>	<u>-</u>
<b>Net position - end of year</b>	<u>\$ 7,622,744</u>	<u>\$ 6,943,052</u>	<u>\$ 7,478,891</u>	<u>\$ 7,424,742</u>	<u>\$ 15,101,635</u>	<u>\$ 283,972</u>

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2015**

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**Governmental Activities**

The City's total governmental activities revenues were \$2.4 million. Which was consistent with last year.

The City's total governmental activities expenses were \$1.9 million. Which was consistent with last year.

**Business-type Activities**

The City's total business-type activities revenues were \$1.4 million. Which was consistent with last year.

The City's total business-type activities expenses were \$1.4 million. Which was consistent with last year.

There were no major changes to sewer rates and no major sewer system improvement projects started in the current year. Rates will be increased by 2% in the next fiscal year. Sewer projects expected to cost \$100,000 will begin in the next fiscal year.

There were no major changes to water rates and there were two major water system improvement projects totaling \$673,000 completed in the current year. Rates will be increased by 2% in the next fiscal year. There are no water projects expected in the next fiscal year.

**The City's Funds**

Our analysis of the City's major funds begins on page 4-5, 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 2014-2015 include the General, Major Street, Local Street, Airport, Capital Project, 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 \$474,233 in 2014-2015. The City Council has decreased the millage rate from the current 19 mills to 18.9 mills for the 2015 tax season.

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

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2015**

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**Capital Asset and Debt Administration**

At the end of fiscal year 2014-2015, the City had \$16,088,767 in a broad range of capital assets, including buildings, police equipment and water and sewer lines.

The City has governmental activity long-term debt of \$705,387 in installment purchase agreements and bonds payable as well as \$78,397 in compensated absences. Debt attributable to business-type activities includes \$6,456,000 in bonds payable and \$30,586 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 2015-2016 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, 2015**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,631,497	\$ 1,712,997	\$ 6,344,494
Investments	37,708	-	37,708
Receivables			
Taxes	81,560	-	81,560
Customers	86,367	376,302	462,669
Due from other units of government	120,094	-	120,094
Internal balances	(115,306)	115,306	-
Prepaid items	20,738	5,984	26,722
Restricted assets			
Cash and cash equivalents	-	724,361	724,361
Capital assets not being depreciated	1,481,671	-	1,481,671
Capital assets, net of accumulated depreciation	<u>3,364,502</u>	<u>11,242,594</u>	<u>14,607,096</u>
Total assets	<u>\$ 9,708,831</u>	<u>\$ 14,177,544</u>	<u>\$ 23,886,375</u>

**City of Sandusky**  
**Statement of Net Position**  
**February 28, 2015**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Liabilities</b>			
Accounts payable	\$ 51,320	\$ 29,933	\$ 81,253
Accrued and other liabilities	26,361	126,765	153,126
Noncurrent liabilities			
Due within one year	88,553	184,000	272,553
Due in more than one year	695,231	6,302,586	6,997,817
Other post employment benefit obligation	132,970	55,369	188,339
Total liabilities	994,435	6,698,653	7,693,088
<b>Deferred inflows of resources</b>			
Property taxes	1,091,652	-	1,091,652
Total liabilities and deferred inflows of resources	2,086,087	6,698,653	8,784,740
<b>Net position</b>			
Net investment in capital assets	4,245,047	4,786,594	9,031,641
Restricted for:			
Debt service	2	724,361	724,363
Cemetery	76,411	-	76,411
Major streets	520,908	-	520,908
Local streets	597,346	-	597,346
Airport	41,285	-	41,285
Capital projects	112,849	-	112,849
Bond redemption	-	306,371	306,371
Repair, replacement and improvement	-	199,400	199,400
Unrestricted	2,028,896	1,462,165	3,491,061
Total net position	\$ 7,622,744	\$ 7,478,891	\$ 15,101,635

**City of Sandusky**  
**Statement of Activities**  
**Year Ended February 28, 2015**

	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
Functions/Programs							
<b>Primary government</b>							
Governmental activities							
General government	\$ 593,359	\$ 36,595	\$ -	\$ -	\$ (556,764)	\$ -	\$ (556,764)
Public safety	622,756	3,486	-	-	(619,270)	-	(619,270)
Public works	665,362	166,620	8,975	623,861	134,094	-	134,094
Health and welfare	2,422	-	-	-	(2,422)	-	(2,422)
Community and economic development	2,517	150	-	-	(2,367)	-	(2,367)
Recreation and culture	30,690	7,636	-	15,421	(7,633)	-	(7,633)
Interest on long-term debt	5,591	-	-	2,561	(3,030)	-	(3,030)
<b>Total governmental activities</b>	<b>1,922,697</b>	<b>214,487</b>	<b>8,975</b>	<b>641,843</b>	<b>(1,057,392)</b>	<b>-</b>	<b>(1,057,392)</b>

**City of Sandusky**  
**Statement of Activities**  
**Year Ended February 28, 2015**

	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	\$ 961,519	\$ 854,371	\$ -	\$ -	\$ -	\$ (107,148)	\$ (107,148)
Water	446,246	530,191	-	650	-	84,595	84,595
Total business-type activities	<u>1,407,765</u>	<u>1,384,562</u>	<u>-</u>	<u>650</u>	<u>-</u>	<u>(22,553)</u>	<u>(22,553)</u>
Total primary government	<u>\$ 3,330,462</u>	<u>\$ 1,599,049</u>	<u>\$ 8,975</u>	<u>\$ 642,493</u>	<u>(1,057,392)</u>	<u>(22,553)</u>	<u>(1,079,945)</u>
General revenues							
Property taxes					1,080,495	-	1,080,495
State shared revenue					265,175	-	265,175
Unrestricted investment earnings					1,655	1,384	3,039
Gain on sale of capital assets					6,815	-	6,815
Miscellaneous					148,084	55,068	203,152
Total general revenues					<u>1,502,224</u>	<u>56,452</u>	<u>1,558,676</u>
Change in net position					<u>444,832</u>	<u>33,899</u>	<u>478,731</u>
Net position - beginning of year					6,943,052	7,424,742	14,367,794
Prior period adjustment					<u>234,860</u>	<u>20,250</u>	<u>255,110</u>
Net position - beginning of year (restated)					<u>7,177,912</u>	<u>7,444,992</u>	<u>14,622,904</u>
<b>Net position - end of year</b>					<u>\$ 7,622,744</u>	<u>\$ 7,478,891</u>	<u>\$ 15,101,635</u>



**City of Sandusky  
Governmental Funds  
Balance Sheet  
February 28, 2015**

	Special Revenue Funds				Capital Project Fund	Other Governmental Funds *	Total Governmental Funds
	General	Major Street	Local Street	Airport			
<b>Assets</b>							
Cash and cash equivalents	\$ 2,731,735	\$ 499,925	\$ 592,682	\$ 40,729	\$ 122,849	\$ 86,413	\$ 4,074,333
Investments	37,708	-	-	-	-	-	37,708
Taxes	81,560	-	-	-	-	-	81,560
Customers	38,946	-	-	3,067	-	-	42,013
Due from other units of government	82,620	26,092	11,382	-	-	-	120,094
Prepaid items	18,881	448	1,089	-	-	-	20,418
<b>Total assets</b>	<b><u>\$ 2,991,450</u></b>	<b><u>\$ 526,465</u></b>	<b><u>\$ 605,153</u></b>	<b><u>\$ 43,796</u></b>	<b><u>\$ 122,849</u></b>	<b><u>\$ 86,413</u></b>	<b><u>\$ 4,376,126</u></b>
<b>Liabilities</b>							
Accounts payable	\$ 31,175	\$ 5,282	\$ 7,532	\$ 2,511	\$ -	\$ -	\$ 46,500
Accrued and other liabilities	14,647	275	275	-	-	-	15,197
Due to other funds	-	-	-	-	10,000	10,000	20,000
<b>Total liabilities</b>	<b><u>45,822</u></b>	<b><u>5,557</u></b>	<b><u>7,807</u></b>	<b><u>2,511</u></b>	<b><u>10,000</u></b>	<b><u>10,000</u></b>	<b><u>81,697</u></b>
<b>Deferred inflows of resources</b>							
Accounts receivable	-	-	-	2,561	-	-	2,561
Property taxes	1,089,091	-	-	-	-	-	1,089,091
Special assessments	14,514	-	-	-	-	-	14,514
<b>Total deferred inflows of resources</b>	<b><u>1,103,605</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>2,561</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>1,106,166</u></b>

**City of Sandusky  
Governmental Funds  
Balance Sheet  
February 28, 2015**

	Special Revenue Funds				Capital Project Fund	Other Governmental Funds *	Total Governmental Funds
	General	Major Street	Local Street	Airport			
<b>Fund balances</b>							
Non-spendable for:							
Prepaid items	\$ 18,881	\$ 448	\$ 1,089	\$ -	\$ -	\$ -	\$ 20,418
Restricted for:							
Debt service	-	-	-	-	-	2	2
Cemetery	-	-	-	-	-	76,411	76,411
Major streets	-	520,460	-	-	-	-	520,460
Local streets	-	-	596,257	-	-	-	596,257
Airport	-	-	-	38,724	-	-	38,724
Capital projects	-	-	-	-	112,849	-	112,849
Assigned to:							
Cemetery	21,112	-	-	-	-	-	21,112
City Hall	30,586	-	-	-	-	-	30,586
Industrial Park	38,611	-	-	-	-	-	38,611
Recreation	53,795	-	-	-	-	-	53,795
Police	27,596	-	-	-	-	-	27,596
Unassigned, reported in:							
General Fund	<u>1,651,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,651,442</u>
 Total fund balances	 <u>1,842,023</u>	 <u>520,908</u>	 <u>597,346</u>	 <u>38,724</u>	 <u>112,849</u>	 <u>76,413</u>	 <u>3,188,263</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 2,991,450</u>	 <u>\$ 526,465</u>	 <u>\$ 605,153</u>	 <u>\$ 43,796</u>	 <u>\$ 122,849</u>	 <u>\$ 86,413</u>	 <u>\$ 4,376,126</u>

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

**City of Sandusky  
Governmental Funds  
Reconciliation of Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
February 28, 2015**

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<b>Total fund balances for governmental funds</b>	<b>\$ 3,188,263</b>
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.	4,671,578
Certain receivables are not available to pay for current period expenditures and therefore are deferred inflows in the funds.	14,514
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(11,000)
Compensated absences	(78,397)
Net other post employment obligation	(132,970)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(705,387)
Internal service funds are included as part of governmental activities.	<u>676,143</u>
<b>Net position of governmental activities</b>	<b><u>\$ 7,622,744</u></b>

**City of Sandusky**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended February 28, 2015**

	General	Special Revenue Funds			Capital Projects Fund	Other Governmental Funds *	Governmental Funds Total
		Major Street	Local Street	Airport			
<b>Revenues</b>							
Taxes	\$ 1,080,495	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,080,495
Licenses and permits	3,486	-	-	-	-	-	3,486
Federal grants	-	-	-	257,896	-	-	257,896
State revenue sharing	258,382	-	-	-	-	-	258,382
Other state grants	9,299	178,116	61,716	6,793	-	-	255,924
Local contributions	-	33,243	98,762	-	-	-	132,005
Charges for services	150,630	-	-	25,493	-	-	176,123
Fines and forfeitures	2,159	-	-	-	-	-	2,159
Interest income	949	9,369	199	7	140	27	10,691
Rental income	1,884	-	-	23,343	-	-	25,227
Other revenue	144,359	-	-	3,891	-	-	148,250
<b>Total revenues</b>	<b>1,651,643</b>	<b>220,728</b>	<b>160,677</b>	<b>317,423</b>	<b>140</b>	<b>27</b>	<b>2,350,638</b>
<b>Expenditures</b>							
<b>Current</b>							
General government	435,094	-	-	-	-	-	435,094
Public safety	528,934	-	-	-	-	-	528,934
Public works	379,943	87,692	136,676	73,063	14,165	-	691,539
Health and welfare	-	-	-	-	-	2,422	2,422
Community and economic development	2,517	-	-	-	-	-	2,517
Recreation and culture	31,372	-	-	-	-	-	31,372
Capital outlay	46,777	29,861	85,782	264,689	338,126	-	765,235
<b>Debt service</b>							
Principal retirement	44,933	-	-	-	-	-	44,933
Interest and fiscal charges	10,591	-	-	-	-	-	10,591
<b>Total expenditures</b>	<b>1,480,161</b>	<b>117,553</b>	<b>222,458</b>	<b>337,752</b>	<b>352,291</b>	<b>2,422</b>	<b>2,512,637</b>
Excess (deficiency) of revenues over expenditures	171,482	103,175	(61,781)	(20,329)	(352,151)	(2,395)	(161,999)

**City of Sandusky**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended February 28, 2015**

	Special Revenue Funds				Capital Projects Fund	Other Governmental Funds *	Governmental Funds Total
	General	Major Street	Local Street	Airport			
<b>Other financing sources (uses)</b>							
Transfers in	\$ -	\$ -	\$ 50,000	\$ 31,007	\$ -	\$ 975	\$ 81,982
Transfers out	(81,982)	-	-	-	-	-	(81,982)
Issuance of debt	-	-	-	-	465,000	-	465,000
Sale of fixed assets	6,815	-	-	-	-	-	6,815
Total other financing sources (uses)	(75,167)	-	50,000	31,007	465,000	975	471,815
Net change in fund balance	96,315	103,175	(11,781)	10,678	112,849	(1,420)	309,816
Fund balance - beginning of year	1,655,931	417,733	609,127	28,046	-	77,833	2,788,670
Prior period adjustment	89,777	-	-	-	-	-	89,777
Fund balance - beginning of year (restated)	1,745,708	417,733	609,127	28,046	-	77,833	2,878,447
Fund balance - end of year	\$ 1,842,023	\$ 520,908	\$ 597,346	\$ 38,724	\$ 112,849	\$ 76,413	\$ 3,188,263

\* Other Governmental Funds consist of Senior Citizen Housing, Debt Service 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, 2015**

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**Net change in fund balances - total governmental funds** \$ 309,816

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	(253,572)
Capital outlay	770,412

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

Special assessments	7,326
Other revenue	2,561

Expenses are recorded when incurred in the statement of activities.

Accrued interest	5,000
Compensated absences	(4,149)
Net other post employment obligation	(4,586)

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	(465,000)
Repayments of long-term debt	44,933

Internal service funds are also included as governmental activities.	32,091
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<b>Change in net position of governmental activities</b>	<b>\$ <u>444,832</u></b>
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**City of Sandusky**  
**Proprietary Funds**  
**Statement of Net Position**  
**February 28, 2015**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,193,932	\$ 519,065	\$ 1,712,997	\$ 557,164
Receivables				
Customers	235,581	140,721	376,302	44,354
Due from other funds	-	20,000	20,000	-
Prepaid items	4,270	1,714	5,984	320
Total current assets	<u>1,433,783</u>	<u>681,500</u>	<u>2,115,283</u>	<u>601,838</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	318,107	406,254	724,361	-
Capital assets, net of accumulated depreciation	8,076,254	3,166,340	11,242,594	174,595
Total noncurrent assets	<u>8,394,361</u>	<u>3,572,594</u>	<u>11,966,955</u>	<u>174,595</u>
Total assets	<u>9,828,144</u>	<u>4,254,094</u>	<u>14,082,238</u>	<u>776,433</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	16,288	13,645	29,933	4,820
Accrued and other liabilities	101,778	24,987	126,765	164
Current portion of noncurrent liabilities	76,000	108,000	184,000	-
Total current liabilities	<u>194,066</u>	<u>146,632</u>	<u>340,698</u>	<u>4,984</u>

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Net Position**  
**February 28, 2015**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Noncurrent liabilities				
Long-term debt net of current portion	\$ 4,717,142	\$ 1,585,444	\$ 6,302,586	\$ -
Other post employment benefit obligation	44,776	10,593	55,369	-
Total noncurrent liabilities	<u>4,761,918</u>	<u>1,596,037</u>	<u>6,357,955</u>	<u>-</u>
Total liabilities	<u>4,955,984</u>	<u>1,742,669</u>	<u>6,698,653</u>	<u>4,984</u>
<b>Net position</b>				
Net investment in capital assets	3,298,254	1,488,340	4,786,594	174,595
Restricted for:				
Debt	318,107	406,254	724,361	-
Bond redemption	229,431	76,940	306,371	-
Repair, replacement and improvement	62,406	136,994	199,400	-
Unrestricted	<u>963,962</u>	<u>402,897</u>	<u>1,366,859</u>	<u>596,854</u>
Total net position	<u>\$ 4,872,160</u>	<u>\$ 2,511,425</u>	7,383,585	<u>\$ 771,449</u>
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			<u>95,306</u>	
Net position of business-type activities			<u>\$ 7,478,891</u>	



**City of Sandusky**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended February 28, 2015**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Operating revenue</b>				
Customer fees	\$ 853,586	\$ 530,191	\$ 1,383,777	\$ -
Billings to other funds	-	-	-	161,754
Connection fees	785	-	785	-
Other revenue	23,544	31,524	55,068	-
	877,915	561,715	1,439,630	161,754
<b>Operating expenses</b>				
Personnel services	286,575	113,987	400,562	16,951
Supplies	25,839	21,070	46,909	24,451
Contractual services	29,612	9,421	39,033	760
Utilities	108,267	35,622	143,889	-
Repairs and maintenance	46,475	67,690	114,165	39,913
Other expenses	10,516	38,682	49,198	6,025
Depreciation	255,797	95,775	351,572	40,340
	763,081	382,247	1,145,328	128,440
Total operating expenses				
	114,834	179,468	294,302	33,314
Operating income				

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended February 28, 2015**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Nonoperating revenue (expenses)</b>				
Interest income	\$ 328	\$ 1,056	\$ 1,384	\$ 189
Interest expense	(198,599)	(72,065)	(270,664)	-
 Total nonoperating revenues (expenses)	(198,271)	(71,009)	(269,280)	7,004
 Income before contributions	(83,437)	108,459	25,022	40,318
Capital contributions - other	-	650	650	-
 Change in net position	(83,437)	109,109	25,672	40,318
 Net position - beginning of year	4,945,472	2,392,191		731,131
Prior period adjustment	10,125	10,125		-
 Net position - beginning of year (restated)	4,955,597	2,402,316		731,131
 Net position - end of year	\$ 4,872,160	\$ 2,511,425		\$ 771,449
 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			8,227	
 Change in net position of business-type activities			\$ 33,899	

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended February 28, 2015**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 910,886	\$ 589,144	\$ 1,500,030	\$ 14,673
Receipts from (payments to) other funds	3,306	(23,313)	(20,007)	117,400
Payments to suppliers	(224,683)	(153,141)	(377,824)	(71,435)
Payments to employees	(286,575)	(113,987)	(400,562)	(16,951)
Remove interest on restricted cash	(76)	(130)	(206)	-
Payments for interfund services used	(726)	(32,526)	(33,252)	-
Net cash provided by operating activities	<u>402,132</u>	<u>266,047</u>	<u>668,179</u>	<u>43,687</u>
<b>Cash flows from capital and related financing activities</b>				
Capital contributions	-	650	650	-
Purchases/construction of capital assets	-	(386,037)	(386,037)	(82,835)
Principal and interest paid on long-term debt	(280,898)	(171,414)	(452,312)	-
Proceeds from sale of capital assets	-	-	-	6,815
Net cash used by capital and related financing activities	<u>(280,898)</u>	<u>(556,801)</u>	<u>(837,699)</u>	<u>(76,020)</u>
<b>Cash flows from investing activities</b>				
Interest received	<u>328</u>	<u>1,056</u>	<u>1,384</u>	<u>189</u>
Net change in cash and cash equivalents	121,562	(289,698)	(168,136)	(32,144)
Cash and cash equivalents - beginning of year	<u>1,072,370</u>	<u>808,763</u>	<u>1,881,133</u>	<u>589,308</u>
Cash and cash equivalents - end of year	<u>\$ 1,193,932</u>	<u>\$ 519,065</u>	<u>\$ 1,712,997</u>	<u>\$ 557,164</u>

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended February 28, 2015**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income	\$ 114,834	\$ 179,468	\$ 294,302	\$ 33,314
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation expense	255,797	95,775	351,572	40,340
Changes in assets and liabilities				
Receivables (net)	32,971	27,429	60,400	(29,681)
Due from other funds	3,306	(20,000)	(16,694)	-
Prepaid items	769	(362)	407	(67)
Restricted cash	(76)	(130)	(206)	-
Accounts payable	(4,102)	(10,720)	(14,822)	(9)
Accrued and other liabilities	(1,367)	(2,100)	(3,467)	(210)
Due to other funds	-	(3,313)	(3,313)	-
	<u>\$ 402,132</u>	<u>\$ 266,047</u>	<u>\$ 668,179</u>	<u>\$ 43,687</u>
Net cash provided by operating activities				

**City of Sandusky**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Position**  
**February 28, 2015**

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	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	\$ -	\$ -	\$ -	\$ -	\$ 583,482
Investments	-	8,500	-	8,500	-
Total assets	-	8,500	-	8,500	\$ 583,482
<b>Liabilities</b>					
Due to other units of government	-	-	-	-	\$ 583,482
<b>Net position</b>					
Held in trust for pension benefits	\$ -	\$ 8,500	\$ -	\$ 8,500	

**City of Sandusky**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Position**  
**Year Ended February 28, 2015**

	Employee Sick Pay Trust Fund	Pension Trust Fund	Employee Health Care Trust Fund	Total Pension and Other Employee Benefit Trust Funds
<b>Additions</b>				
<b>Investment earnings</b>				
Investment income	\$ -	\$ 1,742	\$ 38	\$ 1,780
<b>Deductions</b>				
Benefits	-	20,613	133,760	154,373
Change in net position	-	(18,871)	(133,722)	(152,593)
Net position - beginning of year	72,319	65,079	133,722	271,120
Prior period adjustment	(72,319)	(37,708)	-	(110,027)
Net position - beginning of year (restated)	-	27,371	133,722	161,093
Net position - end of year	\$ -	\$ 8,500	\$ -	\$ 8,500

**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2015**

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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, 2015**

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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 Capital Projects Fund is for expenditures as a result of the 2014 Capital Improvement Bond.

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 Debt Service Fund accounts for repayments of the 2014 Capital Improvement Bond.

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 pension benefits 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



**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2015**

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services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Assets, liabilities, and net 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 2013 taxable valuation of the government totaled \$56,811,650, on which ad valorem taxes consisted of 19 mills for operating purposes. This resulted in \$1,079,421 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

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

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

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets for land, site improvements, buildings, and building improvements of more than \$10,000 and equipment with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The City began recording governmental infrastructure constructed on or after March 1, 2003.

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

**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2015**

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

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

Compensated absences – In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payments for unused sick leave under formulas and conditions specified in the contract. The vacation policy allows certain staff groups to carryover unused days. The dollar amount for vested rights has been accrued in the governmental-wide and proprietary 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.

Deferred inflows of resources - A deferred inflow of resources is an acquisition of net position 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.

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.

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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.

#### **Adoption of New Accounting Standards**

The Governmental Accounting Standards Board issued Statement 70, *Nonexchange Financial Guarantees*, which the City adopted effective March 1, 2014. Statement 70 addresses the accounting and disclosure of situations in which one government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity, or individual without directly receiving equal or approximate equal value in exchange (a nonexchange transaction).

#### **Upcoming Accounting and Reporting Changes**

The Governmental Accounting Standards Board has issued Statement 68, *Accounting and Financial Reporting for Pensions*. 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 this change has not been determined. Statement 68 is effective for the year ending February 29, 2016. The Governmental Accounting Standards Board has also issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 71 improves accounting and financial reporting by addressing an issue in Statement 68, *Accounting and Financial Reporting of Pensions*, concerning transition provisions related to certain pension

contributions made to defined benefit pension plans prior to implementation of that Statement by employers and non-employer contributing entities. Statement 71 should be applied simultaneously with the provisions of Statement 68.

The Governmental Accounting Standards Board has also issued Statement 72, *Fair Value Measurement and Application*. Statement 72 addresses accounting and financial reporting issues related to fair value measurements. Fair value is defined as an exit price (what a government would get to sell the asset), and fair value measurements primarily apply to investments. The Statement enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. This Statement requires additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Statement 72 is effective for the year ending February 28, 2017, although earlier application is allowed.

#### **Subsequent Events**

Management has evaluated subsequent events through July 31, 2015, which is the date the financial statements were available to be issued.

#### **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

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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.

**Excess of Expenditures Over Appropriations**

The were no significant expenditures in excess of budget.

**Note 3 - Deposits and Investments**

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

	Cash and Cash Equivalents	Investments	Restricted Cash and Cash Equivalents	Total
Governmental activities	\$ 4,631,497	\$ 37,708	\$ -	\$ 4,669,205
Business-type activities	<u>1,712,997</u>	<u>-</u>	<u>724,361</u>	<u>2,437,358</u>
Total primary government	6,344,494	37,708	724,361	7,106,563
Fiduciary funds	<u>583,482</u>	<u>8,500</u>	<u>-</u>	<u>591,982</u>
Total	<u>\$ 6,927,976</u>	<u>\$ 46,208</u>	<u>\$ 724,361</u>	<u>\$ 7,698,545</u>

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

	Primary Government	Fiduciary Funds	Total
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,731,977	\$ 583,482	\$ 2,315,459
Investments in securities, mutual funds and similar vehicles	5,374,091	8,500	5,382,591
Petty cash and cash on hand	<u>495</u>	<u>-</u>	<u>495</u>
	<u>\$ 7,106,563</u>	<u>\$ 591,982</u>	<u>\$ 7,698,545</u>

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

Investment	Fair Value	Maturities	Rating
American Life Annuity	\$ 10,635	N/A	Unrated
DWS High Income Fund A	35,573	Daily	Unrated
Chase High Yield Savings	<u>5,374,091</u>	Daily	Unrated
	<u>\$ 5,420,299</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:

	<u>Beginning Balance</u>	<u>Transfers</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>					
Capital assets not being depreciated					
Land	\$ 692,258	\$ 11,483	\$ 13,822	\$ -	\$ 717,563
Construction in progress	<u>468,322</u>	<u>-</u>	<u>388,904</u>	<u>93,118</u>	<u>764,108</u>
Total capital assets not being depreciated	<u>1,160,580</u>	<u>11,483</u>	<u>402,726</u>	<u>93,118</u>	<u>1,481,671</u>
Capital assets being depreciated					
Land improvements	660,028	-	431,178	-	1,091,206
Infrastructure	2,257,010	-	29,626	-	2,286,636
Buildings, additions and improvements	1,280,599	(11,483)	25,586	-	1,294,702
Machinery and equipment	659,996	-	-	117,000	542,996
Vehicles	<u>287,737</u>	<u>-</u>	<u>57,249</u>	<u>-</u>	<u>344,986</u>
Total capital assets being depreciated	<u>5,145,370</u>	<u>(11,483)</u>	<u>543,639</u>	<u>117,000</u>	<u>5,560,526</u>
Less accumulated depreciation for					
Land improvements	178,613	-	39,734	-	218,347
Infrastructure	674,693	-	150,592	-	825,285
Buildings, additions and improvements	337,004	-	54,264	-	391,268
Machinery and equipment	566,434	-	39,490	117,000	488,924
Vehicles	<u>262,368</u>	<u>-</u>	<u>9,832</u>	<u>-</u>	<u>272,200</u>
Total accumulated depreciation	<u>2,019,112</u>	<u>-</u>	<u>293,912</u>	<u>117,000</u>	<u>2,196,024</u>
Net capital assets being depreciated	<u>3,126,258</u>	<u>(11,483)</u>	<u>249,727</u>	<u>-</u>	<u>3,364,502</u>
Governmental activities capital assets, net	<u>\$ 4,286,838</u>	<u>\$ -</u>	<u>\$ 652,453</u>	<u>\$ 93,118.00</u>	<u>\$ 4,846,173</u>

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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets being depreciated				
Machinery and equipment	\$ 305,361	\$ -	\$ -	\$ 305,361
Water system	4,134,320	386,037	-	4,520,357
Sewer system	12,142,512	-	-	12,142,512
Total capital assets being depreciated	<u>16,582,193</u>	<u>386,037</u>	<u>-</u>	<u>16,968,230</u>
Less accumulated depreciation for				
Machinery and equipment	261,777	10,352	-	272,129
Water system	1,258,242	95,775	-	1,354,017
Sewer system	3,854,045	245,445	-	4,099,490
Total accumulated depreciation	<u>5,374,064</u>	<u>351,572</u>	<u>-</u>	<u>5,725,636</u>
Net capital assets being depreciated	<u>11,208,129</u>	<u>34,465</u>	<u>-</u>	<u>11,242,594</u>
Business-type capital assets, net	<u>\$ 11,208,129</u>	<u>\$ 34,465</u>	<u>\$ -</u>	<u>\$ 11,242,594</u>

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

<b>Governmental activities</b>	
General government	\$ 159,750
Public safety	93,822
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>40,340</u>
Total governmental activities	<u>293,912</u>
<b>Business-type activities</b>	
Sewer	255,797
Water	<u>95,775</u>
Total business-type activities	<u>351,572</u>
Total primary government	<u>\$ 645,484</u>

**Note 5 - Interfund Receivables, Payables and Transfers**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/from other funds</b>		
Water	Nonmajor	\$ 10,000
Water	Capital Projects	<u>10,000</u>
		<u>\$ 20,000</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	\$ 50,000
General	Airport	31,007
General	Nonmajor	<u>975</u>
		<u>\$ 81,982</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.

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**Note 6 - 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:

	<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>Governmental activities</b>									
Bonds and notes payable									
General obligation bonds									
2014 Capital Improvement Bond	\$ 465,000	11/1/22	1.99%	\$50,000 - 65,000	\$ -	\$ 465,000	\$ -	\$ 465,000	\$ 50,000
Installment purchase agreements									
2003 Vacant land	225,000	3/4/18	3.65%	14,090 - 20,113	92,311	-	16,857	75,454	17,537
2006 Vacant land	300,000	6/30/21	3.89%	16,328 - 27,032	<u>185,162</u>	<u>-</u>	<u>20,229</u>	<u>164,933</u>	<u>21,016</u>
Total bonds and notes payable					277,473	465,000	37,086	705,387	88,553
Capital lease									
2012 Police car lease	22,910	4/20/14	3.25%	7,428 - 7,847	7,847	-	7,847	-	-
Compensated absences									
					<u>74,248</u>	<u>4,149</u>	<u>-</u>	<u>78,397</u>	<u>-</u>
Total governmental activities					<u>\$ 359,568</u>	<u>\$ 469,149</u>	<u>\$ 44,933</u>	<u>\$ 783,784</u>	<u>\$ 88,553</u>



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	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<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%	\$29,000 - 31,000	\$ 591,000	\$ -	\$ 79,000	\$ 512,000	\$ 88,000
Sewage Disposal System Revenue									
Bonds, Series 2005A	3,690,000	9/1/45	4.125%	50,000 - 187,000	3,358,000	-	50,000	3,308,000	52,000
Sewage Disposal System Revenue									
Bonds, Series 2005B	1,650,000	9/1/45	4.125%	23,000 - 87,000	1,493,000	-	23,000	1,470,000	24,000
Water Supply System Junior Lien									
Revenue Bonds, Series 2005A	1,346,000	11/1/45	4.25%	20,000 - 64,000	<u>1,186,000</u>	<u>-</u>	<u>20,000</u>	<u>1,166,000</u>	<u>20,000</u>
Total bonds payable					6,628,000	-	172,000	6,456,000	184,000
Compensated absences					<u>45,475</u>	<u>-</u>	<u>14,889</u>	<u>30,586</u>	<u>-</u>
Total business-type activities					<u>\$ 6,673,475</u>	<u>\$ -</u>	<u>\$ 186,889</u>	<u>\$ 6,486,586</u>	<u>\$ 184,000</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
2016	\$ 88,553	\$ 18,129	\$ 184,000	\$ 266,373
2017	89,936	15,751	197,000	258,804
2018	101,452	13,190	198,000	250,758
2019	104,611	10,428	179,000	242,910
2020	84,482	7,546	181,000	235,593
2021-2025	236,353	9,611	784,000	1,072,332
2026-2030	-	-	785,000	918,898
2031-2035	-	-	959,000	756,206
2036-2040	-	-	1,186,000	530,679
2041-2045	-	-	1,465,000	257,703
2046-2050	-	-	338,000	14,023
	<u>\$ 705,387</u>	<u>\$ 74,655</u>	<u>\$ 6,456,000</u>	<u>\$ 4,804,279</u>

**Note 7 - 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 8 - 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, 2015 are as follows:

	<u>Cost</u>	<u>Market</u>
Total	<u>\$ 8,500</u>	<u>\$ 8,500</u>

**Plan as administered by Michigan Municipal Employees' Retirement System**

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

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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 2015, the government’s annual pension cost of \$146,799 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, 2012, 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
2/28/2013	\$ 130,228	100%	-
2/28/2014	133,161	100%	-
2/28/2015	146,799	100%	-

<b>Schedule of Funding Progress</b>	
Actuarial valuation date	12/31/2014
Actuarial value of assets	\$ 2,455,769
Actuarial accrued liabilities	4,183,154
Unfunded AAL (UAAL)	1,727,385
Funded ratio	57.6%
Covered payroll	800,869
UAAL as a percentage of covered payroll	216%

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.

**Note 9 - Postemployment 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 four participants receiving benefits, and there were expenditures of \$14,400 for the fiscal year.

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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 25 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	\$ 24,227
Contributions made to OPEB	<u>14,400</u>
Change in net OPEB obligation	9,827
Net OPEB liability, beginning of year	<u>178,512</u>
Net OPEB liability, end of year	<u>\$ 188,339</u>

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
2013	\$ 46,097	21%	\$ 143,619
2014	44,493	22%	178,512
2015	24,227	59%	188,339

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, 2015, the City contributed \$14,400 to the Plan. As of February 28, 2015, the actuarial accrued liability for benefits was \$188,339. The projection of future benefits from an ongoing plan involves estimates of the value of the reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

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

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**Note 10 - Reserve for Repair, Replacement, and Improvement (RRI)**

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

	<u>Bond Reserve</u>	<u>RRI Reserve</u>
Water Fund	\$ 7,340	\$ -
Sewer Fund	<u>28,252</u>	<u>-</u>
Total	<u>\$ 35,592</u>	<u>\$ -</u>

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, 2015.

	<u>Water Fund</u>		
	<u>Bond Reserve</u>	<u>RRI Reserve</u>	<u>Total</u>
Beginning Balance	\$ 76,916	\$ 136,950	\$ 213,866
Interest	<u>24</u>	<u>44</u>	<u>68</u>
Ending Balance	<u>\$ 76,940</u>	<u>\$ 136,994</u>	<u>\$ 213,934</u>
	<u>Sewer Fund</u>		
	<u>Bond Reserve</u>	<u>RRI Reserve</u>	<u>Total</u>
Beginning Balance	\$ 229,378	\$ 62,392	\$ 291,770
Interest	<u>53</u>	<u>14</u>	<u>67</u>
Ending Balance	<u>\$ 229,431</u>	<u>\$ 62,406</u>	<u>\$ 291,837</u>

At February 28, 2015, the reserve accounts were in compliance with the minimum balance set forth by Rural Development.

**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2015**

**Note 11 - Prior Period Adjustments**

The following prior period adjustments were recorded, as follows:

A prior period adjustment was recorded to increase beginning net position and beginning construction in progress. This had no effect on the fund statements, but did require the beginning balance of government-wide net position to be increased by \$145,083.

A prior period adjustment was recorded to move cash from the Pension Trust Fund to the General Fund in the amount of \$37,708. This increased beginning government-wide net position and beginning fund balance in the General Fund by \$37,708.

A prior period adjustment was recorded to move cash from the Employee Sick Pay Trust Fund to the General Fund, Water Fund, and Sewer Fund. The General Fund beginning fund balance increased by \$52,069. This increased beginning government-wide net position by \$52,069. The Water and Sewer Fund beginning net position increased by \$10,125 each. This increased beginning business-type net position by \$20,250.

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Pension Trust Fund</u>	<u>Employee Sick Pay Trust Fund</u>
Beginning net position	\$ 6,943,052	\$ 7,424,742	\$ 65,079	\$ 72,319
Prior period adjustment	<u>234,860</u>	<u>20,250</u>	<u>(37,708)</u>	<u>(72,319)</u>
Restated net position	<u>\$ 7,177,912</u>	<u>\$ 7,444,992</u>	<u>\$ 27,371</u>	<u>\$ -</u>

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Beginning fund balance	\$ 1,655,931	\$ 2,392,191	\$ 4,945,472
Prior period adjustment	<u>89,777</u>	<u>10,125</u>	<u>10,125</u>
Restated fund balance	<u>\$ 1,745,708</u>	<u>\$ 2,402,316</u>	<u>\$ 4,955,597</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended February 28, 2015**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
<b>Revenues</b>				
Taxes				
Property taxes	\$ 1,018,000	\$ 1,040,000	\$ 1,079,424	\$ 39,424
Penalties and interest	1,000	1,000	1,071	71
Licenses and permits	3,500	3,500	3,486	(14)
State revenue sharing	250,000	250,000	258,382	8,382
State grants	1,500	1,500	9,299	7,799
Local contributions	5,400	5,400	-	(5,400)
Charges for services	147,200	147,200	150,630	3,430
Fines and forfeitures	900	900	2,159	1,259
Interest income	4,500	4,500	949	(3,551)
Rental income	3,750	3,750	1,884	(1,866)
Other revenue	16,950	150,950	144,359	(6,591)
Sale of fixed assets	10,000	10,000	6,815	(3,185)
Transfer in	180,000	180,000	-	(180,000)
	<u>1,642,700</u>	<u>1,798,700</u>	<u>1,658,458</u>	<u>(140,242)</u>
Total revenues				

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended February 28, 2015**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Expenditures</b>				
General government				
City Council	\$ 14,750	\$ 12,920	\$ 13,141	\$ 221
Manager	110,900	110,320	109,892	(428)
Clerk	78,800	76,850	75,906	(944)
Board of review	250	400	399	(1)
Treasurer	22,350	22,485	22,520	35
Assessor	14,700	13,920	13,468	(452)
Elections	6,350	6,350	4,766	(1,584)
Buildings and grounds	176,250	168,493	152,313	(16,180)
Cemetery	36,700	42,060	42,689	629
Total general government	<u>461,050</u>	<u>453,798</u>	<u>435,094</u>	<u>(18,704)</u>
Public safety				
Police	473,200	483,430	474,233	(9,197)
Fire department	54,800	54,800	54,701	(99)
Building inspection department	2,000	-	-	-
Total public safety	<u>530,000</u>	<u>538,230</u>	<u>528,934</u>	<u>(9,296)</u>
Public works				
Department of public works	149,400	174,820	169,451	(5,369)
Sidewalks	21,550	6,825	7,921	1,096
Street lighting	83,000	77,200	69,688	(7,512)
Refuse collection	131,000	134,350	132,883	(1,467)
Total public works	<u>384,950</u>	<u>393,195</u>	<u>379,943</u>	<u>(13,252)</u>



**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended February 28, 2015**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Community and economic development				
Planning	\$ 2,600	\$ 1,300	\$ 1,283	\$ (17)
Zoning	2,550	1,350	1,234	(116)
Total community and economic development	<u>5,150</u>	<u>2,650</u>	<u>2,517</u>	<u>(133)</u>
Recreation and culture				
Parks and recreation	36,450	157,475	31,372	(126,103)
Capital outlay	48,000	56,852	46,777	(10,075)
Debt service				
Principal retirement	45,400	44,800	44,933	133
Interest and fiscal charges	10,700	10,700	10,591	(109)
Total debt service	<u>56,100</u>	<u>55,500</u>	<u>55,524</u>	<u>24</u>
Transfers out	121,000	141,000	81,982	(59,018)
Total expenditures	<u>1,642,700</u>	<u>1,798,700</u>	<u>1,562,143</u>	<u>(236,557)</u>
Excess of revenues over expenditures	-	-	96,315	96,315
Fund balance - beginning of year	1,655,931	1,655,931	1,655,931	-
Prior period adjustment	-	-	89,777	89,777
Fund balance - beginning of year (restated)	<u>1,655,931</u>	<u>1,655,931</u>	<u>1,745,708</u>	<u>89,777</u>
Fund balance - end of year	<u>\$ 1,655,931</u>	<u>\$ 1,655,931</u>	<u>\$ 1,842,023</u>	<u>\$ 186,092</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**Year Ended February 28, 2015**

	<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	\$ 163,000	\$ 163,000	\$ 178,116	\$ 15,116
Local contributions	35,000	35,000	33,243	(1,757)
Interest income	600	600	9,369	8,769
Other revenue	<u>125,000</u>	<u>125,000</u>	<u>-</u>	<u>(125,000)</u>
Total revenues	<u>323,600</u>	<u>323,600</u>	<u>220,728</u>	<u>(102,872)</u>
<b>Expenditures</b>				
Current				
Public works	161,600	161,600	87,692	(73,908)
Capital outlay	<u>162,000</u>	<u>162,000</u>	<u>29,861</u>	<u>(132,139)</u>
Total expenditures	<u>323,600</u>	<u>323,600</u>	<u>117,553</u>	<u>(206,047)</u>
Excess of revenues over expenditures	-	-	103,175	103,175
Fund balance - beginning of year	<u>417,733</u>	<u>417,733</u>	<u>417,733</u>	<u>-</u>
Fund balance - end of year	<u>\$ 417,733</u>	<u>\$ 417,733</u>	<u>\$ 520,908</u>	<u>\$ 103,175</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**Year Ended February 28, 2015**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
<b>Revenues</b>				
Other state grants	\$ 60,000	\$ 60,000	\$ 61,716	\$ 1,716
Local contributions	85,000	85,000	98,762	13,762
Interest income	1,000	1,000	199	(801)
Other revenue	200,000	200,000	-	(200,000)
Transfers in	100,000	100,000	50,000	(50,000)
	<u>446,000</u>	<u>446,000</u>	<u>210,677</u>	<u>(235,323)</u>
Total revenues				
<b>Expenditures</b>				
Current				
Public works	190,200	190,200	136,676	(53,524)
Capital outlay	255,800	255,800	85,782	(170,018)
	<u>446,000</u>	<u>446,000</u>	<u>222,458</u>	<u>(223,542)</u>
Total expenditures				
Deficiency of revenues over expenditures	-	-	(11,781)	(11,781)
Fund balance - beginning of year	609,127	609,127	609,127	-
Fund balance - end of year	<u>\$ 609,127</u>	<u>\$ 609,127</u>	<u>\$ 597,346</u>	<u>\$ (11,781)</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Airport Fund**  
**Year Ended February 28, 2015**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Federal grants	\$ -	\$ 350,000	\$ 257,896	\$ (92,104)
Other state grants	-	11,000	6,793	(4,207)
Charges for services	32,000	32,000	25,493	(6,507)
Interest income	-	-	7	7
Rental income	22,000	22,000	23,343	1,343
Other revenue	500	500	3,891	3,391
Transfers in	18,000	31,007	31,007	-
Total revenues	<u>72,500</u>	<u>446,507</u>	<u>348,430</u>	<u>(98,077)</u>
<b>Expenditures</b>				
Current				
Public works	72,500	85,507	73,063	(12,444)
Capital outlay	-	361,000	264,689	(96,311)
Total expenditures	<u>72,500</u>	<u>446,507</u>	<u>337,752</u>	<u>(108,755)</u>
Excess of revenues over expenditures	-	-	10,678	10,678
Fund balance - beginning of year	<u>28,046</u>	<u>28,046</u>	<u>28,046</u>	<u>-</u>
Fund balance - end of year	<u>\$ 28,046</u>	<u>\$ 28,046</u>	<u>\$ 38,724</u>	<u>\$ 10,678</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Schedule of Funding Progress - Other Post Employment Benefits**  
**February 28, 2015**

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%
2/28/14	-	292,000	292,000	0%
2/28/15	135,850	258,000	122,150	53%

**City of Sandusky**  
**Required Supplemental Information**  
**Schedule of Employer Contributions - Other Post Employment Benefits**  
**February 28, 2015**

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%
2/28/14	44,493	9,600	22%
2/28/15	39,329	14,400	37%

The information presented above was determined as part of the valuations at the date incurred. Additional information as of February 28, 2015, 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, 2015**

**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	130,228	100%
2/28/2014	133,161	100%
2/28/2015	146,799	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%
12/31/2013	2,318,731	3,977,668	1,658,937	58.3%	785,506	211.2%
12/31/2014	2,455,769	4,183,154	1,727,385	58.7%	800,869	215.7%

**City of Sandusky**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**February 28, 2015**

	Special Revenue Fund		Permanent Fund	
	Senior Citizen Housing	Debt Service	Cemetery	Total Nonmajor Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 10,002	\$ 76,411	\$ 86,413
<b>Liabilities</b>				
Due to other funds	\$ -	\$ 10,000	\$ -	\$ 10,000
<b>Fund balances</b>				
Restricted for:				
Cemetery	-	-	76,411	76,411
Debt service	-	2	-	2
Total fund balances	-	2	76,411	76,413
Total liabilities and fund balances	\$ -	\$ 10,002	\$ 76,411	\$ 86,413



**City of Sandusky**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended February 28, 2015**

	Special Revenue Fund		Permanent Fund	
	Senior Citizen Housing	Debt Service Fund	Cemetery	Total Nonmajor Governmental Funds
<b>Revenues</b>				
Interest income	\$ 1	\$ 2	\$ 24	\$ 27
<b>Expenditures</b>				
Current				
Health and welfare	2,422	-	-	2,422
Excess (deficiency) of revenues over expenditures	(2,421)	2	24	(2,395)
<b>Other financing sources (uses)</b>				
Transfers in	-	-	975	975
Net change in fund balance	(2,421)	2	999	(1,420)
Fund balance - beginning of year	2,421	-	75,412	77,833
Fund balance - end of year	\$ -	\$ 2	\$ 76,411	\$ 76,413

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2015**

<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>						
2014 Capital Improvement Bond	1.99%	5/1/15	\$ 25,000	\$ 5,912	\$ -	\$ 30,912
Amount of issue - \$465,000	1.99%	11/1/15	25,000	4,378	-	29,378
Date of issue - 9/11/14	1.99%	5/1/16	25,000	4,129	-	29,129
	1.99%	11/1/16	25,000	3,881	-	28,881
	1.99%	5/1/17	30,000	3,632	-	33,632
	1.99%	11/1/17	30,000	3,333	-	33,333
	1.99%	5/1/18	30,000	3,035	-	33,035
	1.99%	11/1/18	30,000	2,736	-	32,736
	1.99%	5/1/19	30,000	2,438	-	32,438
	1.99%	11/1/19	30,000	2,139	-	32,139
	1.99%	5/1/20	30,000	1,841	-	31,841
	1.99%	11/1/20	30,000	1,542	-	31,542
	1.99%	5/1/21	30,000	1,244	-	31,244
	1.99%	11/1/21	30,000	945	-	30,945
	1.99%	5/1/22	30,000	647	-	30,647
	1.99%	11/1/22	35,000	348	-	35,348
			<u>\$ 465,000</u>	<u>\$ 42,180</u>	<u>\$ -</u>	<u>\$ 507,180</u>
2003 Installment Loan - Vacant Land	3.65%	3/4/15	\$ 17,537	\$ 2,689	\$ -	\$ 20,226
Amount of issue - \$225,000	3.65%	3/4/16	18,103	2,123	-	20,226
Date of issue - 6/18/12	3.65%	3/4/17	18,769	1,457	-	20,226
	3.65%	3/4/18	21,045	771	-	21,816
			<u>\$ 75,454</u>	<u>\$ 7,040</u>	<u>\$ -</u>	<u>\$ 82,494</u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2015**

<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>
2006 Installment Loan - Vacant Land	3.89%	7/12/15	\$ 21,016	\$ 6,435	\$ -	\$ 27,451
Amount of issue - \$300,000	3.89%	7/12/16	21,833	5,618	-	27,451
Date of issue - 7/12/06	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	25,920	1,027	-	26,947
			<u>\$ 164,933</u>	<u>\$ 26,720</u>	<u>\$ -</u>	<u>\$ 191,653</u>
<b>Business-type Activities</b>						
Water Supply System Revenue	4.025%	5/1/15	\$ 44,000	\$ 10,304	\$ -	\$ 54,304
Bonds, Series 2011	4.025%	11/1/15	44,000	9,419	-	53,419
Amount of issue - \$840,000	4.025%	5/1/16	46,000	8,533	-	54,533
Date of issue - 8/31/11	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>\$ 512,000</u>	<u>\$ 69,915</u>	<u>\$ -</u>	<u>\$ 581,915</u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2015**

<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%	9/1/15	\$ 52,000	\$ 68,228	\$ 68,228	\$ 188,455
Bonds Series 2005 A	4.125%	9/1/16	55,000	67,155	67,155	189,310
Amount of issue - \$3,690,000	4.125%	9/1/17	57,000	66,021	66,021	189,041
Date of issue - 9/25/05	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>\$ 3,308,000</u>	<u>\$ 1,317,896</u>	<u>\$ 1,317,896</u>	<u>\$ 5,943,793</u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2015**

<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%	9/1/15	\$ 24,000	\$ 30,319	\$ 30,319	\$ 84,638
Bonds Series 2005 B	4.125%	9/1/16	25,000	29,824	29,824	84,648
Amount of issue - \$1,650,000	4.125%	9/1/17	26,000	29,308	29,308	84,616
Date of issue - 9/25/05	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
			\$ 1,470,000	\$ 582,326	\$ 582,326	\$ 2,634,653

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2015**

<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%	11/1/15	\$ 20,000	\$ 24,778	\$ 24,778	\$ 69,556
Revenue Bonds Series 2005 A	4.25%	11/1/16	25,000	24,353	24,353	73,706
Amount of issue - \$1,346,000	4.25%	11/1/17	25,000	23,821	23,821	72,642
Date of issue - 11/16/05	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>\$ 1,166,000</u>	<u>\$ 457,816</u>	<u>\$ 457,816</u>	<u>\$ 2,081,632</u>

**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 Auditors' Report**

Management and 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, 2015, 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 31, 2015.

**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 of 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. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be 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 in the accompanying schedule of findings and responses to be a material weakness: 2015-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of 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 is required to be reported under *Government Auditing Standards*.

### **City of Sandusky's Response to Findings**

City of Sandusky's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. City of Sandusky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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, MI  
July 31, 2015



**City of Sandusky**  
**Schedule of Findings and Responses**  
**February 28, 2015**

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**2015-001 – Material Weakness – Audit Adjustments**

**Specific requirement:** Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles

**Condition:** Prior period adjustments were required within the funds and on the Statement of Net Position. The adjustments were discovered by management during the fiscal year and were deemed necessary. The entries were needed to record construction in progress that had previously been expensed and to restate the Employee Sick Pay Trust Fund and Pension Trust Fund for cash that belongs in the General Fund.

**Cause:** Material construction in progress was not recorded in the prior year government-wide financial statements. The City had fiduciary funds that were not identified as belonging to the City until the current year.

**Effect:** A prior period adjustment was necessary to properly reflect the financial position of the City.

**Recommendation:** We recommend the City take steps to ensure that all capital outlay accounts are carefully reviewed on a regular basis. Expenditures that require capitalization, including construction in progress, on the government-wide statements should be tracked and properly capitalized when required. We recommend the purpose of each fiduciary fund be reviewed each year.

**Views of responsible officials:** Management believes this was an oversight and is in agreement with the proposed audit adjustments.

**Corrective action plan:** See the attached corrective action plan.



# City of Sandusky

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DAVID M. FABER  
CITY MANAGER

26 WEST SPEAKER STREET • SANDUSKY, MICHIGAN 48471

July 31, 2015

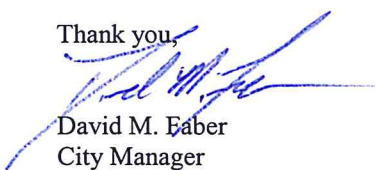
## **CORRECTIVE ACTION PLAN: 2015-001 Material Weakness**

Material construction in progress was not identified by the City's internal control over financial reporting. The City of Sandusky reports the information provided by MDOT for our construction projects. At some point MDOT modified the numbers after the City made its adjustments. Therefore an adjustment had to be made to the financials. The City will make every effort to provide and update the information for posting as per the MDOT schedule provided

The City had fiduciary funds that were not identified as belonging to the city until the current year. During research regarding GASB 67, the City discovered it had to modify its Employee Sick Pay Trust Fund and transfer the monies to the correct fund. This is a onetime adjustment.

After reviewing the Midwest Pension Actuaries for a pension it was determined that the account exceeded the potential liabilities due to an employee. Therefore an adjustment was needed to correct the account. This is a onetime adjustment.

Thank you,



David M. Faber  
City Manager  
City of Sandusky