

**City of Sandusky**

**Annual Financial Statements  
and  
Independent Auditors' Report  
February 28, 2014**

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**City of Sandusky**  
**List of Elected and Appointed Officials**  
**February 28, 2014**

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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 Thompson	City Clerk
Barbara Mitchell	Treasurer



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## Independent Auditors' Report

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sandusky, as of and for the year ended February 28, 2014, 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, 2014, 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.

### **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 list of elected and appointed officials and 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2014 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  
June 13, 2014

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2014**

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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, 2014. 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 2% from a year ago – increasing from \$14.1 million to \$14.4 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 \$141,000 during the year. The business-type activities experienced approximately \$143,000 increase in net position.



**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2014**

Following is an analysis of the major components of the net position of the City as of February 28, 2014 and 2013.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>						
Other assets	\$ 4,452,994	\$ 4,238,930	\$ 3,115,203	\$ 2,822,973	\$ 7,568,197	\$ 7,061,903
Capital assets	<u>4,141,755</u>	<u>4,277,446</u>	<u>11,208,128</u>	<u>11,504,265</u>	<u>15,349,883</u>	<u>15,781,711</u>
Total assets	<u>8,594,749</u>	<u>8,516,376</u>	<u>14,323,331</u>	<u>14,327,238</u>	<u>22,918,080</u>	<u>22,843,614</u>
<b>Liabilities</b>						
Other liabilities	68,145	59,601	174,987	146,388	243,132	205,989
Noncurrent liabilities	<u>487,952</u>	<u>505,171</u>	<u>6,723,603</u>	<u>6,898,886</u>	<u>7,211,555</u>	<u>7,404,057</u>
Total liabilities	<u>556,097</u>	<u>564,772</u>	<u>6,898,590</u>	<u>7,045,274</u>	<u>7,454,687</u>	<u>7,610,046</u>
<b>Deferred inflows of resources</b>						
Total deferred inflows of resources	<u>1,095,600</u>	<u>1,149,746</u>	<u>-</u>	<u>-</u>	<u>1,095,600</u>	<u>1,149,746</u>
Total liabilities and deferred inflows of resources	<u>1,651,697</u>	<u>1,714,518</u>	<u>6,898,590</u>	<u>7,045,274</u>	<u>8,550,287</u>	<u>8,759,792</u>
<b>Net position</b>						
Net investment in capital assets	3,856,435	3,945,902	4,580,128	4,705,265	8,436,563	8,651,167
Restricted	1,129,103	1,027,470	1,229,791	1,228,581	2,358,894	2,256,051
Unrestricted	<u>1,957,514</u>	<u>1,828,486</u>	<u>1,614,822</u>	<u>1,348,118</u>	<u>3,572,336</u>	<u>3,176,604</u>
Total net position	<u>\$ 6,943,052</u>	<u>\$ 6,801,858</u>	<u>\$ 7,424,741</u>	<u>\$ 7,281,964</u>	<u>\$ 14,367,793</u>	<u>\$ 14,083,822</u>

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2014**

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Program revenues</b>						
Charges for services	\$ 213,950	\$ 239,400	\$ 1,503,337	\$ 1,509,483	\$ 1,717,287	\$ 1,748,883
Operating grants and contributions	9,487	40,093	-	-	9,487	40,093
Capital grants and contributions	490,090	640,060	7,988	6,550	498,078	646,610
<b>General revenues</b>						
Property taxes	1,139,218	1,196,715	-	-	1,139,218	1,196,715
State shared revenue	255,042	251,870	-	-	255,042	251,870
Unrestricted investment income	6,458	7,274	2,825	2,791	9,283	10,065
Gain on sale of capital assets	-	2,421	-	-	-	2,421
Miscellaneous	57,500	175,028	47,586	44,359	105,086	219,387
Dissolution of Senior Center	-	(312,804)	-	-	-	(312,804)
<b>Total revenues</b>	<u>2,171,745</u>	<u>2,240,057</u>	<u>1,561,736</u>	<u>1,563,183</u>	<u>3,733,481</u>	<u>3,803,240</u>
<b>Program expenses</b>						
General government	562,312	612,804	-	-	562,312	612,804
Public safety	630,939	601,902	-	-	630,939	601,902
Public works	784,221	615,722	-	-	784,221	615,722
Health and welfare	-	30,302	-	-	-	30,302
Community and economic development	2,741	3,806	-	-	2,741	3,806
Recreation and culture	31,591	36,319	-	-	31,591	36,319
Interest on long-term debt	18,747	18,636	-	-	18,747	18,636
Sewer	-	-	977,857	922,373	977,857	922,373
Water	-	-	441,102	346,528	441,102	346,528
<b>Total expenses</b>	<u>2,030,551</u>	<u>1,919,491</u>	<u>1,418,959</u>	<u>1,268,901</u>	<u>3,449,510</u>	<u>3,188,392</u>
<b>Change in Net Position</b>	<u>\$ 141,194</u>	<u>\$ 320,566</u>	<u>\$ 142,777</u>	<u>\$ 294,282</u>	<u>\$ 283,971</u>	<u>\$ 614,848</u>

**City of Sandusky**  
**Management's Discussion and Analysis**  
**February 28, 2014**

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**Governmental Activities**

The City's total governmental activities revenues were \$2.2 million. Which was consistent with last year.

The City's total governmental activities expenses were \$2.0 million. This is a 5% increase over last year.

**Business-type Activities**

The City's total business-type activities revenues were \$1.5 million. Which was consistent with last year.

The City's total business-type activities expenses were \$1.4 million. Specifically, this is a 7.7% increase over 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 reviewed 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 \$46,000 during the current year. Rates will be reviewed in the next fiscal year. Water projects expected to cost \$500,000 will begin in the next fiscal year.

**The City's Funds**

Our analysis of the City's major funds begins on page 4-4, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as water and sewer service, roadwork, storm sewers and sidewalks. The City's major funds for 2013-2014 include the General, Major Street, Local Street, Airport, Sewer and Water Funds.

The General Fund pays for most of the City's governmental services and is financed by the general operating millage and state revenue sharing. The most significant services are police protection, which incurred expenditures of \$485,055 in 2013-2014. There are no major changes in revenue or projects anticipated in the next year budget. Major and Local Street projects of \$350,000 and \$300,000, respectively, are planned for the next fiscal year.

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, 2014**

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**Capital Asset and Debt Administration**

At the end of fiscal year 2013 - 2014, the City had \$15,349,883 in a broad range of capital assets, including buildings, police equipment and water and sewer lines.

The City also has governmental activity long-term debt of \$285,320 in installment purchase agreements, and \$74,248 in compensated absences. Debt attributable to business-type activities includes \$6,628,000 in bonds payable and \$45,475 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 2014 - 2015 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, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,257,716	\$ 1,860,883	\$ 6,118,599
Receivables			
Taxes	93,412	-	93,412
Customers	53,194	436,702	489,896
Due from other units of government	119,427	-	119,427
Internal balances	(87,072)	87,072	-
Prepaid items	16,317	6,391	22,708
Restricted assets			
Cash and cash equivalents	-	724,155	724,155
Capital assets not being depreciated	1,015,497	-	1,015,497
Capital assets, net of accumulated depreciation	3,126,258	11,208,129	14,334,387
<b>Total assets</b>	<b>\$ 8,594,749</b>	<b>\$ 14,323,332</b>	<b>\$ 22,918,081</b>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Statement of Net Position**  
**February 28, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Liabilities</b>			
Accounts payable	\$ 35,252	\$ 44,755	\$ 80,007
Accrued and other liabilities	32,893	130,232	163,125
Noncurrent liabilities			
Due within one year	44,932	172,000	216,932
Due in more than one year	314,636	6,501,475	6,816,111
Other post employment benefit obligation	128,384	50,128	178,512
Total liabilities	556,097	6,898,590	7,454,687
<b>Deferred inflows of resources</b>			
Total deferred inflows of resources	1,095,600	-	1,095,600
<b>Total liabilities and deferred inflows of resources</b>	<u>1,651,697</u>	<u>6,898,590</u>	<u>8,550,287</u>
<b>Net position</b>			
Net investment in capital assets	3,856,435	4,580,129	8,436,564
Restricted for:			
Debt	-	724,155	724,155
Perpetual care	75,412	-	75,412
Special revenue funds	1,053,691	-	1,053,691
Bond redemption	-	306,294	306,294
Repair, replacement and improvement	-	199,342	199,342
Unrestricted	1,957,514	1,614,822	3,572,336
<b>Total net position</b>	<u>\$ 6,943,052</u>	<u>\$ 7,424,742</u>	<u>\$ 14,367,794</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Statement of Activities**  
**Year Ended February 28, 2014**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>							
<b>Primary government</b>							
<b>Governmental activities</b>							
General government	\$ 562,312	\$ 35,520	\$ -	\$ -	\$ (526,792)	\$ -	\$ (526,792)
Public safety	630,939	5,413	-	-	(625,526)	-	(625,526)
Public works	784,221	165,632	9,487	490,090	(119,012)	-	(119,012)
Community and economic development	2,741	-	-	-	(2,741)	-	(2,741)
Recreation and culture	31,591	7,385	-	-	(24,206)	-	(24,206)
Interest on long-term debt	18,747	-	-	-	(18,747)	-	(18,747)
<b>Total governmental activities</b>	<b>2,030,551</b>	<b>213,950</b>	<b>9,487</b>	<b>490,090</b>	<b>(1,317,024)</b>	<b>-</b>	<b>(1,317,024)</b>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Statement of Activities**  
**Year Ended February 28, 2014**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Business-type activities							
Sewer	\$ 977,857	\$ 933,836	\$ -	\$ -	\$ -	\$ (44,021)	\$ (44,021)
Water	441,101	569,501	-	7,988	-	136,388	136,388
Total business-type activities	<u>1,418,958</u>	<u>1,503,337</u>	-	<u>7,988</u>	-	<u>92,367</u>	<u>92,367</u>
Total primary government	<u>\$ 3,449,509</u>	<u>\$ 1,717,287</u>	<u>\$ 9,487</u>	<u>\$ 498,078</u>	<u>(1,317,024)</u>	<u>92,367</u>	<u>(1,224,657)</u>
General revenues							
Property taxes					1,139,218	-	1,139,218
State shared revenue					255,042	-	255,042
Unrestricted investment earnings					6,458	2,825	9,283
Miscellaneous					57,500	47,586	105,086
Total general revenues					<u>1,458,218</u>	<u>50,411</u>	<u>1,508,629</u>
Change in net position					141,194	142,778	283,972
Net position - beginning of year					<u>6,801,858</u>	<u>7,281,964</u>	<u>14,083,822</u>
<b>Net position - end of year</b>					<u>\$ 6,943,052</u>	<u>\$ 7,424,742</u>	<u>\$ 14,367,794</u>

See Accompanying Notes to Financial Statements



**City of Sandusky**  
**Governmental Funds**  
**Balance Sheet**  
**February 28, 2014**

	Special Revenue Fund				Other Governmental Funds *	Total Governmental Funds
	General	Major Street	Local Street	Airport		
<b>Assets</b>						
Cash and cash equivalents	\$ 2,572,474	\$ 392,074	\$ 598,906	\$ 27,121	\$ 77,833	\$ 3,668,408
Receivables						
Taxes	93,412	-	-	-	-	93,412
Customers	35,898	-	-	2,623	-	38,521
Due from other units of government	82,670	25,648	11,109	-	-	119,427
Due from other funds	7	-	-	-	-	7
Prepaid items	14,849	354	861	-	-	16,064
<b>Total assets</b>	<u>\$ 2,799,310</u>	<u>\$ 418,076</u>	<u>\$ 610,876</u>	<u>\$ 29,744</u>	<u>\$ 77,833</u>	<u>\$ 3,935,839</u>
<b>Liabilities</b>						
Accounts payable	\$ 27,362	\$ 111	\$ 1,520	\$ 1,430	\$ -	\$ 30,423
Accrued and other liabilities	15,790	232	229	268	-	16,519
<b>Total liabilities</b>	<u>43,152</u>	<u>343</u>	<u>1,749</u>	<u>1,698</u>	<u>-</u>	<u>46,942</u>
<b>Deferred inflows of resources</b>						
Property taxes	<u>1,100,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,100,227</u>

See Accompanying Notes to Financial Statements

**City of Sandusky  
Governmental Funds  
Balance Sheet  
February 28, 2014**

	General	Special Revenue Fund			Other Governmental Funds *	Total Governmental Funds
		Major Street	Local Street	Airport		
<b>Fund balances</b>						
Non-spendable for:						
Prepaid items	\$ 14,849	\$ 354	\$ 861	\$ -	\$ -	\$ 16,064
Restricted for:						
Perpetual care	-	-	-	-	75,412	75,412
Special revenue funds	-	417,379	608,266	28,046	-	1,053,691
Assigned to:						
Cemetery	21,106	-	-	-	-	21,106
City Hall	30,584	-	-	-	-	30,584
Fire Hall	105,638	-	-	-	-	105,638
Industrial Park	38,608	-	-	-	-	38,608
Recreation	53,790	-	-	-	-	53,790
Police	27,594	-	-	-	-	27,594
Special revenue funds	-	-	-	-	2,421	2,421
Unassigned, reported in:						
General fund	<u>1,363,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,363,762</u>
 Total fund balances	<u>1,655,931</u>	<u>417,733</u>	<u>609,127</u>	<u>28,046</u>	<u>77,833</u>	<u>2,788,670</u>
 <b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 2,799,310</u>	<u>\$ 418,076</u>	<u>\$ 610,876</u>	<u>\$ 29,744</u>	<u>\$ 77,833</u>	<u>\$ 3,935,839</u>

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

**City of Sandusky**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Position of Governmental Activities**  
**February 28, 2014**

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<b>Total fund balances for governmental funds</b>	\$ 2,788,670
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.	4,009,655
Certain receivables are not available to pay for current period expenditures and therefore are deferred inflows in the funds.	4,627
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(16,000)
Compensated absences	(74,248)
Net other post employment obligation	(128,384)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(285,320)
Internal service funds are included as part of governmental activities.	<u>644,052</u>
<b>Net position of governmental activities</b>	<u><u>\$ 6,943,052</u></u>

**City of Sandusky**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended February 28, 2014**

	General	Special Revenue Fund			Other Governmental Funds *	Governmental Funds Total
		Major Street	Local Street	Airport		
<b>Revenues</b>						
Taxes	\$ 1,139,218	\$ -	\$ -	\$ -	\$ -	\$ 1,139,218
Licenses and permits	3,413	-	-	-	-	3,413
Federal grants	-	-	-	137,842	-	137,842
State revenue sharing	251,422	-	-	-	-	251,422
Other state grants	2,444	179,185	60,210	3,620	-	245,459
Local contributions	2,000	35,000	84,896	-	-	121,896
Charges for services	154,670	-	-	24,882	-	179,552
Fines and forfeitures	1,325	-	-	-	-	1,325
Interest income	3,639	629	1,117	16	140	5,541
Rental income	3,697	-	-	23,832	-	27,529
Other revenue	54,416	-	-	3,212	3	57,631
<b>Total revenues</b>	<b>1,616,244</b>	<b>214,814</b>	<b>146,223</b>	<b>193,404</b>	<b>143</b>	<b>2,170,828</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	411,324	-	-	-	-	411,324
Public safety	541,152	-	-	-	-	541,152
Public works	364,637	87,737	117,316	73,744	-	643,434
Community and economic development	2,741	-	-	-	-	2,741
Recreation and culture	34,272	-	-	-	-	34,272
Capital outlay	10,121	56,953	54,961	141,464	-	263,499
<b>Debt service</b>						
Principal retirement	46,224	-	-	-	-	46,224
Interest and fiscal charges	13,747	-	-	-	-	13,747
<b>Total expenditures</b>	<b>1,424,218</b>	<b>144,690</b>	<b>172,277</b>	<b>215,208</b>	<b>-</b>	<b>1,956,393</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>192,026</b>	<b>70,124</b>	<b>(26,054)</b>	<b>(21,804)</b>	<b>143</b>	<b>214,435</b>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended February 28, 2014**

	Special Revenue Fund				Other Governmental Funds *	Governmental Funds Total
	General	Major Street	Local Street	Airport		
<b>Other financing sources (uses)</b>						
Transfers in	\$ -	\$ -	\$ 50,000	\$ 28,000	\$ 1,300	\$ 79,300
Transfers out	<u>(79,300)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(79,300)</u>
Total other financing sources (uses)	<u>(79,300)</u>	<u>-</u>	<u>50,000</u>	<u>28,000</u>	<u>1,300</u>	<u>-</u>
Net change in fund balance	112,726	70,124	23,946	6,196	1,443	214,435
Fund balance - beginning of year	<u>1,543,205</u>	<u>347,609</u>	<u>585,181</u>	<u>21,850</u>	<u>76,390</u>	<u>2,574,235</u>
<b>Fund balance - end of year</b>	<u>\$ 1,655,931</u>	<u>\$ 417,733</u>	<u>\$ 609,127</u>	<u>\$ 28,046</u>	<u>\$ 77,833</u>	<u>\$ 2,788,670</u>

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

**City of Sandusky**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**Year Ended February 28, 2014**

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**Net change in fund balances - total governmental funds** \$ 214,435

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	(242,668)
Capital outlay	109,427

Expenses are recorded when incurred in the statement of activities.

Accrued interest	(5,000)
Compensated absences	(2,875)
Net other post employment obligation	(26,130)

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.

Repayments of long-term debt	46,224
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Internal service funds are also included as governmental activities.

47,781

**Change in net position of governmental activities** **\$ 141,194**

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Net Position**  
**February 28, 2014**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,062,245	\$ 798,638	\$ 1,860,883	\$ 589,308
Receivables				
Customers	268,552	168,150	436,702	14,673
Due from other funds	3,306	-	3,306	-
Prepaid items	5,039	1,352	6,391	253
Total current assets	<u>1,339,142</u>	<u>968,140</u>	<u>2,307,282</u>	<u>604,234</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	318,031	406,124	724,155	-
Capital assets, net of accumulated depreciation	8,332,051	2,876,078	11,208,129	132,100
Total noncurrent assets	<u>8,650,082</u>	<u>3,282,202</u>	<u>11,932,284</u>	<u>132,100</u>
Total assets	<u>9,989,224</u>	<u>4,250,342</u>	<u>14,239,566</u>	<u>736,334</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	20,390	24,365	44,755	4,829
Accrued and other liabilities	103,145	27,087	130,232	374
Due to other funds	-	3,313	3,313	-
Current portion of noncurrent liabilities	73,000	99,000	172,000	-
Total current liabilities	<u>196,535</u>	<u>153,765</u>	<u>350,300</u>	<u>5,203</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Net Position**  
**February 28, 2014**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Noncurrent liabilities				
Long-term debt net of current portion	\$ 4,806,776	\$ 1,694,699	\$ 6,501,475	\$ -
Other post employment benefit obligation	<u>40,441</u>	<u>9,687</u>	<u>50,128</u>	<u>-</u>
Total noncurrent liabilities	<u>4,847,217</u>	<u>1,704,386</u>	<u>6,551,603</u>	<u>-</u>
Total liabilities	<u>5,043,752</u>	<u>1,858,151</u>	<u>6,901,903</u>	<u>5,203</u>
<b>Net position</b>				
Net investment in capital assets	3,481,051	1,099,078	4,580,129	132,100
Restricted for:				
Debt	318,031	406,124	724,155	-
Bond redemption	229,378	76,916	306,294	-
Repair, replacement and improvement	62,392	136,950	199,342	-
Unrestricted	<u>854,620</u>	<u>673,123</u>	<u>1,527,743</u>	<u>599,031</u>
<b>Total net position</b>	<u>\$ 4,945,472</u>	<u>\$ 2,392,191</u>	7,337,663	<u>\$ 731,131</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>87,079</u>	
<b>Net position of business-type activities</b>			<u>\$ 7,424,742</u>	

See Accompanying Notes to Financial Statements



**City of Sandusky**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended February 28, 2014**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Operating revenue</b>				
Customer fees	\$ 926,717	\$ 569,501	\$ 1,496,218	\$ -
Billings to other funds	-	-	-	133,352
Connection fees	7,119	-	7,119	-
Other revenue	<u>25,756</u>	<u>21,830</u>	<u>47,586</u>	<u>-</u>
Total operating revenue	<u>959,592</u>	<u>591,331</u>	<u>1,550,923</u>	<u>133,352</u>
<b>Operating expenses</b>				
Personnel services	289,101	105,696	394,797	15,203
Supplies	32,764	15,876	48,640	26,827
Contractual services	20,371	18,072	38,443	854
Utilities	107,955	35,218	143,173	-
Repairs and maintenance	56,991	59,060	116,051	23,232
Other expenses	10,747	48,710	59,457	7,425
Depreciation	<u>258,553</u>	<u>93,196</u>	<u>351,749</u>	<u>2,450</u>
Total operating expenses	<u>776,482</u>	<u>375,828</u>	<u>1,152,310</u>	<u>75,991</u>
Operating income	<u>183,110</u>	<u>215,503</u>	<u>398,613</u>	<u>57,361</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Year Ended February 28, 2014**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Nonoperating revenue (expenses)</b>				
Interest income	\$ 421	\$ 2,404	\$ 2,825	\$ 917
Interest expense	(201,547)	(75,598)	(277,145)	-
 Total nonoperating revenues (expenses)	 (201,126)	 (73,194)	 (274,320)	 917
 Income before contributions	 (18,016)	 142,309	 124,293	 58,278
 Capital contributions - other	 -	 7,988	 7,988	 -
 Change in net position	 (18,016)	 150,297	 132,281	 58,278
 Net position - beginning of year	 4,963,488	 2,241,894		 672,853
 <b>Net position - end of year</b>	 <b><u>\$ 4,945,472</u></b>	 <b><u>\$ 2,392,191</u></b>		 <b><u>\$ 731,131</u></b>
 Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			 <u>10,497</u>	
 <b>Change in net position of business-type activities</b>			 <b><u>\$ 142,778</u></b>	

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended February 28, 2014**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 928,367	\$ 567,629	\$ 1,495,996	\$ 8,567
Receipts from other funds	12,519	36,873	49,392	118,679
Receipts to (payments from) other funds	(30,220)	3,313	(26,907)	-
Payments to suppliers	(218,925)	(134,249)	(353,174)	(57,876)
Payments to employees	(289,101)	(105,696)	(394,797)	(15,203)
Interest on restricted cash	(119)	(681)	(800)	-
Payments for interfund services used	(371)	(23,972)	(24,343)	-
	<u>402,150</u>	<u>343,217</u>	<u>745,367</u>	<u>54,167</u>
<b>Net cash provided by operating activities</b>				
<b>Cash flows from capital and related financing activities</b>				
Capital contributions	-	7,988	7,988	-
Purchases/construction of capital assets	(20,318)	(35,295)	(55,613)	-
Principal and interest paid on long-term debt	(277,393)	(175,036)	(452,429)	-
	<u>(297,711)</u>	<u>(202,343)</u>	<u>(500,054)</u>	<u>-</u>
<b>Net cash used by capital and related financing activities</b>				
<b>Cash flows from investing activities</b>				
Interest received	421	2,404	2,825	917
	<u>421</u>	<u>2,404</u>	<u>2,825</u>	<u>917</u>
<b>Net change in cash and cash equivalents</b>				
	<u>104,860</u>	<u>143,278</u>	<u>248,138</u>	<u>55,084</u>
Cash and cash equivalents - beginning of year	957,385	655,360	1,612,745	534,224
	<u>957,385</u>	<u>655,360</u>	<u>1,612,745</u>	<u>534,224</u>
<b>Cash and cash equivalents - end of year</b>				
	<u>\$ 1,062,245</u>	<u>\$ 798,638</u>	<u>\$ 1,860,883</u>	<u>\$ 589,308</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended February 28, 2014**

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income	\$ 183,110	\$ 215,503	\$ 398,613	\$ 57,361
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	258,553	93,196	351,749	2,450
Changes in assets and liabilities				
Receivables (net)	(31,225)	(23,702)	(54,927)	(6,731)
Due from other units of government	-	-	-	625
Due from other funds	12,519	36,873	49,392	-
Prepaid items	(277)	(75)	(352)	(13)
Restricted cash	(119)	(681)	(800)	-
Accounts payable	10,263	18,823	29,086	214
Accrued and other liabilities	(454)	(33)	(487)	261
Due to other funds	(30,220)	3,313	(26,907)	-
<b>Net cash provided by operating activities</b>	<b>\$ 402,150</b>	<b>\$ 343,217</b>	<b>\$ 745,367</b>	<b>\$ 54,167</b>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Fiduciary Funds**  
**Statement of Net Position**  
**February 28, 2014**

	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	\$ 72,319	\$ -	\$ 133,717	\$ 206,036	\$ 28,401
Investments	-	65,079	-	65,079	-
Accrued interest and other	-	-	5	5	-
	<u>72,319</u>	<u>65,079</u>	<u>133,722</u>	<u>271,120</u>	<u>\$ 28,401</u>
<b>Liabilities</b>					
Due to other units of government	-	-	-	-	\$ 28,401
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 28,401</u>
<b>Net position</b>					
Held in trust for pension benefits and other purposes	<u>\$ 72,319</u>	<u>\$ 65,079</u>	<u>\$ 133,722</u>	<u>\$ 271,120</u>	

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Fiduciary Funds**  
**Statement of Changes in Net Position**  
**Year Ended February 28, 2014**

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	<u>Employee Sick Pay Trust Fund</u>	<u>Pension Trust Fund</u>	<u>Employee Health Care Trust Fund</u>	<u>Total Pension and Other Employee Benefit Trust Funds</u>
<b>Additions</b>				
<b>Investment earnings</b>				
Investment income	\$ 161	\$ 4,446	\$ 239	\$ 4,846
Change in net position	161	4,446	239	4,846
Net position - beginning of year	<u>72,158</u>	<u>60,633</u>	<u>133,483</u>	<u>266,274</u>
<b>Net position - end of year</b>	<u>\$ 72,319</u>	<u>\$ 65,079</u>	<u>\$ 133,722</u>	<u>\$ 271,120</u>

See Accompanying Notes to Financial Statements

**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2014**

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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

**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2014**

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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.

The government reports the following major governmental funds:

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

The Major Street Fund is for major street project resources and expenditures.

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

The Airport Fund is for airport project resources and expenditures.

The government reports the following major proprietary funds:

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

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

Additionally, the government reports the following:

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

The Permanent Fund accounts for perpetual cemetery resources and expenditures.

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

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.



**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2014**

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

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

**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 2012 taxable valuation of the government totaled \$59,788,321, on which ad valorem taxes consisted of 19 mills for operating purposes. This resulted in \$1,135,978 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

**City of Sandusky**  
**Notes to Financial Statements**  
**February 28, 2014**

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

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

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

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

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

Compensated absences – In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payments for unused sick leave under formulas and conditions specified in the contract. The vacation policy allows

certain staff groups to carryover unused days. The dollar amount for vested rights has been accrued in the governmental-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

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

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

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

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

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

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

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

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

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

**Upcoming Accounting and Reporting Changes**

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

The Government Accounting Standards Board has also issued *Statement 69, Government Combinations and Disposals of Government Operations, Statement 70, Nonexchange Financial Guarantees, and Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*

Statement 69 provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation of termination of services, and the legal structure of the new or continuing entity. Statement 69 is effective for the year ending February 28, 2015.

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

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approximately equal value in exchange (a nonexchange transaction). A government that extends a nonexchange financial guarantee will be required to recognize a liability when qualitative factors and/or historical data indicate that it is “more likely than not” that the government will be required to make a payment on the guarantee. It further requires governments to disclose any outstanding financial guarantees in the notes to the financial statements. Statement 70 is effective for the year ending February 28, 2015

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.

**Subsequent Events**

Management has evaluated subsequent events through June 13, 2014, 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 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 City incurred expenditures in excess of budget in the Airport Fund. Excess expenditures in this fund occurred in the following area:

	Final Budget	Actual	Variance
Airport Fund			
Capital outlay	\$ -	\$ 141,464	\$ 141,464

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**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	\$ 4,257,716	\$ -	\$ -	\$ 4,257,716
Business-type activities	<u>1,860,883</u>	<u>-</u>	<u>724,155</u>	<u>2,585,038</u>
 Total primary government	 6,118,599	 -	 724,155	 6,842,754
 Fiduciary funds	 <u>234,437</u>	 <u>65,079</u>	 <u>-</u>	 <u>299,516</u>
 Total	 <u>\$ 6,353,036</u>	 <u>\$ 65,079</u>	 <u>\$ 724,155</u>	 <u>\$ 7,142,270</u>

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

	Primary Government	Fiduciary Funds
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 979,606	\$ 234,437
Investments in securities, mutual funds and similar vehicles	5,862,553	65,079
Petty cash and cash on hand	<u>595</u>	<u>-</u>
	<u>\$ 6,842,754</u>	<u>\$ 299,516</u>

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

Investment	Fair Value	Maturities	Rating
American Life Annuity	\$ 10,226		Unrated
DWS High Income Fund A	54,853	Daily	Unrated
Chase High Yield Savings	<u>5,862,553</u>	Daily	Unrated
	<u>\$5,927,632</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.

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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.

**NOTE 4 - CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 692,258	\$ -	\$ -	\$ 692,258
Construction in progress	323,239	-	-	323,239
Total capital assets not being depreciated	<u>1,015,497</u>	<u>-</u>	<u>-</u>	<u>1,015,497</u>
Capital assets being depreciated				
Land improvements	660,028	-	-	660,028
Infrastructure	2,159,066	97,944	-	2,257,010
Buildings, additions and improvements	1,269,116	11,483	-	1,280,599
Machinery and equipment	659,996	-	-	659,996
Vehicles	287,737	-	-	287,737
Total capital assets being depreciated	<u>5,035,943</u>	<u>109,427</u>	<u>-</u>	<u>5,145,370</u>
Less accumulated depreciation for				
Land improvements	149,341	29,272	-	178,613
Infrastructure	528,579	146,114	-	674,693
Buildings, additions and improvements	288,610	48,394	-	337,004
Machinery and equipment	555,054	11,380	-	566,434
Vehicles	252,410	9,958	-	262,368
Total accumulated depreciation	<u>1,773,994</u>	<u>245,118</u>	<u>-</u>	<u>2,019,112</u>
Net capital assets being depreciated	<u>3,261,949</u>	<u>(135,691)</u>	<u>-</u>	<u>3,126,258</u>
Governmental activities capital assets, net	<u>\$ 4,277,446</u>	<u>\$ (135,691)</u>	<u>\$ -</u>	<u>\$ 4,141,755</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets being depreciated				
Machinery and equipment	\$ 285,043	\$ 20,318	\$ -	\$ 305,361
Water system	4,099,025	35,295	-	4,134,320
Sewer system	12,142,512	-	-	12,142,512
Total capital assets being depreciated	<u>16,526,580</u>	<u>55,613</u>	<u>-</u>	<u>16,582,193</u>
Less accumulated depreciation for				
Machinery and equipment	248,666	13,111	-	261,777
Water system	1,165,046	93,196	-	1,258,242
Sewer system	3,608,603	245,442	-	3,854,045
Total accumulated depreciation	<u>5,022,315</u>	<u>351,749</u>	<u>-</u>	<u>5,374,064</u>
Business-type capital assets, net	<u>\$ 11,504,265</u>	<u>\$ (296,136)</u>	<u>\$ -</u>	<u>\$ 11,208,129</u>

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

<b>Governmental activities</b>		
General government		\$ 152,881
Public safety		89,787
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>2,450</u>
Total governmental activities		<u>245,118</u>
<b>Business-type activities</b>		
Sewer		258,553
Water		<u>93,196</u>
Total business-type activities		<u>351,749</u>
Total primary government		<u>\$ 596,867</u>

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

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due from/to other funds</b>		
Sewer	Water	\$ 3,306
General	Water	<u>7</u>
		<u>\$ 3,313</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.

**City of Sandusky**  
**Notes to Financial Statements**  
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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	28,000
General	Cemetery	<u>1,300</u>
		<u>\$ 79,300</u>

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

**NOTE 6 - CAPITAL LEASES**

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

<u>Year ending February 28,</u>	
2015	<u>\$ 8,102</u>
Total minimum lease payments	8,102
Less amount representing interest	<u>255</u>
Present value of minimum lease payments	<u>\$ 7,847</u>
Machinery and equipment	\$ 22,885
Less accumulated depreciation	<u>3,269</u>
Total	<u>\$ 19,616</u>



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**Notes to Financial Statements**  
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**NOTE 7 - LONG-TERM DEBT**

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

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>									
Bonds and notes payable									
Installment purchase agreements									
2003 Vacant Land	\$ 225,000	3/4/18	3.65%	\$ 14,090 - 20,113	\$ 108,280	\$ -	\$ 15,969	\$ 92,311	\$ 16,856
2004 Michigan Economic Dev. Corporation	384,152	11/1/13	5.00%	6,455 - 10,765	3,823	-	3,823	-	-
2006 Vacant Land	300,000	6/30/21	3.89%	16,328 - 27,032	<u>203,959</u>	-	<u>18,797</u>	<u>185,162</u>	<u>20,229</u>
Total bonds and notes payable					316,062	-	38,589	277,473	37,085
Capital lease									
2012 Police car lease	22,910	4/20/14	3.25%	7,428 - 7,847	15,482	-	7,635	7,847	7,847
Compensated absences									
					<u>71,373</u>	<u>2,875</u>	<u>-</u>	<u>74,248</u>	<u>-</u>
Total governmental activities					<u>\$ 402,917</u>	<u>\$ 2,875</u>	<u>\$ 46,224</u>	<u>\$ 359,568</u>	<u>\$ 44,932</u>

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	<u>Amount of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type activities</b>									
Bonds and notes payable									
General obligation bonds									
Water Supply System Revenue Bonds, Series 2011	\$ 840,000	11/1/21	4.025%	\$ 29,000 - 31,000	\$ 672,000	\$ -	\$ 81,000	\$ 591,000	\$ 79,000
Sewage Disposal System Revenue Bonds, Series 2005A	3,690,000	9/1/45	4.125%	50,000 - 187,000	3,406,000	-	48,000	3,358,000	50,000
Sewage Disposal System Revenue Bonds, Series 2005B	1,650,000	9/1/45	4.125%	23,000 - 87,000	1,515,000	-	22,000	1,493,000	23,000
Water Supply System Junior Lien Revenue Bonds, Series 2005A	1,346,000	11/1/45	4.25%	20,000 - 64,000	<u>1,206,000</u>	<u>-</u>	<u>20,000</u>	<u>1,186,000</u>	<u>20,000</u>
Total bonds payable					6,799,000	-	171,000	6,628,000	172,000
Compensated absences					<u>58,521</u>	<u>-</u>	<u>13,046</u>	<u>45,475</u>	<u>-</u>
Total business-type activities					<u>\$ 6,857,521</u>	<u>\$ -</u>	<u>\$ 184,046</u>	<u>\$ 6,673,475</u>	<u>\$ 172,000</u>

**City of Sandusky**  
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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
2015	\$ 37,085	\$ 10,592	\$ 172,000	\$ 273,513
2016	38,487	9,190	184,000	266,373
2017	39,936	7,741	197,000	250,804
2018	41,452	6,225	198,000	250,758
2019	44,677	4,657	179,000	242,910
2020-2024	75,836	6,013	823,000	1,105,685
2025-2029	-	-	758,000	950,353
2030-2034	-	-	919,000	793,748
2035-2039	-	-	1,137,000	582,503
2040-2044	-	-	1,404,000	315,948
2045-2049	-	-	657,000	37,422
	<u>\$ 277,473</u>	<u>\$ 44,418</u>	<u>\$ 6,628,000</u>	<u>\$ 5,070,017</u>

**NOTE 8 - RISK MANAGEMENT**

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

The City is also a member of the Michigan Municipal League (MML). The City contracts with Meadowbrook Insurance through the MML for its worker's compensation and airport insurance coverage. The City continues to carry commercial insurance for employee health coverage through Cops Trust.

**NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

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

**Plan as administered by Midwest Pension Actuaries, Inc.**

The cost and market value of the pension fund investments administered by MPA at February 28, 2014 are as follows:

	<u>Cost</u>	<u>Market</u>
DWS Investments	\$ 54,853	\$ 54,853
American Life Annuity	<u>10,226</u>	<u>10,226</u>
Total	<u>\$ 65,079</u>	<u>\$ 65,079</u>

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

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

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**February 28, 2014**

may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

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

Annual pension costs – For year ended 2014, the government’s annual pension cost of \$150,168 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
2/29/2012	\$ 141,085	100%	-
2/28/2013	149,604	100%	-
2/28/2014	150,168	100%	-

<b>Schedule of Funding Progress</b>	
Actuarial valuation date	12/31/2013
Actuarial value of assets	\$ 2,318,731
Actuarial accrued liabilities	3,977,668
Unfunded AAL (UAAL)	1,658,937
Funded ratio	57.6%
Covered payroll	785,506
UAAL as a percentage of covered payroll	211%

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.

**City of Sandusky**  
**Notes to Financial Statements**  
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**NOTE 10 - POST EMPLOYMENT BENEFITS**

In addition to the pension benefits described in the preceding note, the City provides a fixed amount in post-retirement health care benefits per month. Contracts identify specific requirements. There are three participants receiving benefits, and there were expenditures of \$14,400 for the fiscal year.

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

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

**Annual other postemployment benefit (OPEB) Cost and Net OPEB Obligation** – The City's annual OPEB cost is calculated based on the annual required contribution (ARC). The City has elected to calculate the ARC and related information using the alternative method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarially accrued liabilities (or funding excess) over a period not to exceed 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	\$	44,493
Contributions made to OPEB		9,600
Change in net OPEB obligation		34,893
Net OPEB liability, beginning of year		143,619
Net OPEB liability, end of year	\$	178,512

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

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 47,145	20%	\$ 74,187
2012	42,535	20%	107,122
2013	46,097	20%	143,619
2014	44,493	20%	178,512

**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, 2014, the City contributed \$9,600 to the Plan. As of February 28, 2014, the actuarial accrued liability for benefits was \$137,441. The projection of future benefits from an ongoing plan involves estimates of the value of the reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

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

**NOTE 11 - RESERVE FOR REPAIR, REPLACEMENTS AND IMPROVEMENT (RRI)**

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

	Bond Reserve	RRI Reserve
Water Fund	\$ 7,340	\$ -
Sewer Fund	28,252	-

After ten years of bond reserve transferring the annual bond reserve amount will then be transferred to the RRI reserve account for both funds until the loans are paid in full. Prior to refinancing debt in 2012, there was an annual reserve for RRI, these accounts are still held, but no annual additions are required. The following summarizes the transactions in the reserve accounts for the fiscal year ended February 28, 2014.

	Water Fund		
	Bond Reserve	RRI Reserve	Total
Beginning Balance	\$ 76,794	\$ 136,734	\$ 213,528
Interest	122	216	338
Ending Balance	\$ 76,916	\$ 136,950	\$ 213,866
	Sewer Fund		
	Bond Reserve	RRI Reserve	Total
Beginning Balance	\$ 229,321	\$ 62,377	\$ 291,698
Interest	57	15	72
Ending Balance	\$ 229,378	\$ 62,392	\$ 291,770

At February 28, 2014, the reserve accounts were in compliance with the minimum balance set forth by Rural Development.

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**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended February 28, 2014**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Taxes				
Property taxes	\$ 1,120,000	\$ 1,128,000	\$ 1,138,280	\$ 10,280
Penalties and interest	800	800	938	138
Licenses and permits	3,500	3,500	3,413	(87)
State revenue sharing	230,000	230,000	251,422	21,422
State grants	2,000	2,000	2,444	444
Local contributions	5,400	5,400	2,000	(3,400)
Charges for services	134,350	146,750	154,670	7,920
Fines and forfeitures	900	900	1,325	425
Interest income	5,200	5,200	3,639	(1,561)
Rental income	2,600	2,600	3,697	1,097
Other revenue	49,400	49,400	54,416	5,016
Sale of fixed assets	2,000	2,000	-	(2,000)
Transfer in	95,000	95,000	-	(95,000)
	<u>1,651,150</u>	<u>1,671,550</u>	<u>1,616,244</u>	<u>(55,306)</u>
Total revenues				

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended February 28, 2014**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Expenditures</b>				
General government				
City Council	\$ 14,750	\$ 12,475	\$ 11,581	\$ (894)
Manager	112,200	112,850	102,949	(9,901)
Clerk	76,170	78,945	72,926	(6,019)
Board of review	500	500	437	(63)
Treasurer	21,850	23,100	22,682	(418)
Assessor	12,650	14,275	14,320	45
Elections	5,500	3,350	2,909	(441)
Buildings and grounds	170,000	180,225	141,277	(38,948)
Cemetery	33,670	46,170	42,243	(3,927)
Total general government	<u>447,290</u>	<u>471,890</u>	<u>411,324</u>	<u>(60,566)</u>
Public safety				
Police	464,850	494,175	485,055	(9,120)
Fire department	57,000	57,000	56,097	(903)
Building inspection department	2,000	-	-	-
Total public safety	<u>523,850</u>	<u>551,175</u>	<u>541,152</u>	<u>(10,023)</u>
Public works				
Department of public works	153,590	157,040	137,424	(19,616)
Sidewalks	13,550	15,825	14,399	(1,426)
Street lighting	77,000	83,650	83,195	(455)
Sanitary land fill	120,450	129,850	129,619	(231)
Total public works	<u>364,590</u>	<u>386,365</u>	<u>364,637</u>	<u>(21,728)</u>



**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended February 28, 2014**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Community and economic development				
Planning	\$ 2,600	\$ 2,600	\$ 1,476	\$ (1,124)
Zoning	2,550	2,550	1,265	(1,285)
Total community and economic development	<u>5,150</u>	<u>5,150</u>	<u>2,741</u>	<u>(2,409)</u>
Recreation and culture				
Parks and recreation	<u>35,870</u>	<u>38,870</u>	<u>34,272</u>	<u>(4,598)</u>
Capital outlay	<u>45,000</u>	<u>27,200</u>	<u>10,121</u>	<u>(17,079)</u>
Debt service				
Principal retirement	92,400	47,400	46,224	(1,176)
Interest and fiscal charges	<u>16,000</u>	<u>14,500</u>	<u>13,747</u>	<u>(753)</u>
Total debt service	<u>108,400</u>	<u>61,900</u>	<u>59,971</u>	<u>(1,929)</u>
Transfers out	<u>121,000</u>	<u>129,000</u>	<u>79,300</u>	<u>(49,700)</u>
Total expenditures	<u>1,651,150</u>	<u>1,671,550</u>	<u>1,503,518</u>	<u>(168,032)</u>
Excess of revenues over expenditures	-	-	112,726	112,726
Fund balance - beginning of year	<u>1,543,205</u>	<u>1,543,205</u>	<u>1,543,205</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 1,543,205</u>	<u>\$ 1,543,205</u>	<u>\$ 1,655,931</u>	<u>\$ 112,726</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**Year Ended February 28, 2014**

	<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	\$ 166,000	\$ 166,000	\$ 179,185	\$ 13,185
Local contributions	30,000	30,000	35,000	5,000
Interest income	<u>300</u>	<u>300</u>	<u>629</u>	<u>329</u>
Total revenues	<u>196,300</u>	<u>196,300</u>	<u>214,814</u>	<u>18,514</u>
<b>Expenditures</b>				
Current				
Public works	142,700	137,700	87,737	(49,963)
Capital outlay	<u>53,450</u>	<u>58,450</u>	<u>56,953</u>	<u>(1,497)</u>
Total expenditures	<u>196,150</u>	<u>196,150</u>	<u>144,690</u>	<u>(51,460)</u>
Excess of revenues over expenditures	150	150	70,124	69,974
Fund balance - beginning of year	<u>347,609</u>	<u>347,609</u>	<u>347,609</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u><u>\$ 347,759</u></u>	<u><u>\$ 347,759</u></u>	<u><u>\$ 417,733</u></u>	<u><u>\$ 69,974</u></u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**Year Ended February 28, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
<b>Revenues</b>				
Other state grants	\$ 58,000	\$ 58,000	\$ 60,210	\$ 2,210
Local contributions	90,000	90,000	84,896	(5,104)
Interest income	1,000	1,000	1,117	117
Transfers in	<u>100,000</u>	<u>100,000</u>	<u>50,000</u>	<u>(50,000)</u>
 Total revenues	 <u>249,000</u>	 <u>249,000</u>	 <u>196,223</u>	 <u>(52,777)</u>
<b>Expenditures</b>				
Current				
Public works	193,750	193,750	117,316	(76,434)
Capital outlay	<u>55,250</u>	<u>55,250</u>	<u>54,961</u>	<u>(289)</u>
 Total expenditures	 <u>249,000</u>	 <u>249,000</u>	 <u>172,277</u>	 <u>(76,723)</u>
 Excess of revenues over expenditures	 -	 -	 23,946	 23,946
 Fund balance - beginning of year	 <u>585,181</u>	 <u>585,181</u>	 <u>585,181</u>	 <u>-</u>
 <b>Fund balance - end of year</b>	 <u><u>\$ 585,181</u></u>	 <u><u>\$ 585,181</u></u>	 <u><u>\$ 609,127</u></u>	 <u><u>\$ 23,946</u></u>

**City of Sandusky**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Airport Fund**  
**Year Ended February 28, 2014**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Federal grants	\$ -	\$ -	\$ 137,842	\$ 137,842
Other state grants	-	-	3,620	3,620
Charges for services	34,000	34,000	24,882	(9,118)
Interest income	25	25	16	(9)
Rental income	22,000	22,000	23,832	1,832
Other revenue	147	2,247	3,212	965
Transfers in	20,000	28,000	28,000	-
Total revenues	<u>76,172</u>	<u>86,272</u>	<u>221,404</u>	<u>135,132</u>
<b>Expenditures</b>				
Current				
Public works	76,172	86,272	73,744	(12,528)
Capital outlay	-	-	141,464	141,464
Total expenditures	<u>76,172</u>	<u>86,272</u>	<u>215,208</u>	<u>128,936</u>
Excess of revenues over expenditures	-	-	6,196	6,196
Fund balance - beginning of year	<u>21,850</u>	<u>21,850</u>	<u>21,850</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 21,850</u>	<u>\$ 21,850</u>	<u>\$ 28,046</u>	<u>\$ 6,196</u>

**City of Sandusky**  
**Required Supplemental Information**  
**Schedule of Funding Progress - Other Post Employment Benefits**  
**February 28, 2014**

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%

**City of Sandusky**  
**Required Supplemental Information**  
**Schedule of Employer Contributions - Other Post Employment Benefits**  
**February 28, 2014**

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Year Ended	Annual Required Contribution	Actual Contribution	Percent Contributed
2/28/11	47,145 \$	9,600	20%
2/29/12	42,535	9,600	23%
2/28/13	41,662	9,600	23%
2/28/14	44,493	9,600	22%

The information presented above was determined as part of the valuations at the date incurred. Additional information as of February 28, 2014, 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, 2014**

**Schedule of Employer Contributions**

Fiscal Year Ending	Annual Required Contribution	Percentage of APC Contributed
2/28/2011	\$ 134,028	100%
2/29/2012	141,085	100%
2/28/2013	153,508	100%
2/28/2014	150,168	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%

**City of Sandusky**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**February 28, 2014**

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	<u>Special Revenue Fund</u>	<u>Permanent Fund</u>	
	<u>Senior Citizen Housing</u>	<u>Cemetery</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,421	\$ 75,412	\$ 77,833
<b>Fund balances</b>			
Restricted for:			
Perpetual care	\$ -	\$ 75,412	\$ 75,412
Assigned, reported in:			
Special revenue funds	<u>2,421</u>	<u>-</u>	<u>2,421</u>
<b>Total fund balances</b>	<u>\$ 2,421</u>	<u>\$ 75,412</u>	<u>\$ 77,833</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,421</u>	<u>\$ 75,412</u>	<u>\$ 77,833</u>



**City of Sandusky**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended February 28, 2014**

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	Special Revenue Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Senior Citizen Housing	Cemetery	
<b>Revenues</b>			
Interest income	\$ 7	\$ 133	\$ 140
Other revenue	<u>3</u>	<u>-</u>	<u>3</u>
Total revenues	<u>10</u>	<u>133</u>	<u>143</u>
<b>Other financing sources</b>			
Transfers in	<u>\$ -</u>	<u>\$ 1,300</u>	<u>\$ 1,300</u>
Net change in fund balance	10	1,433	1,443
Fund balance - beginning of year	<u>2,411</u>	<u>73,979</u>	<u>76,390</u>
<b>Fund balance - end of year</b>	<u><u>\$ 2,421</u></u>	<u><u>\$ 75,412</u></u>	<u><u>\$ 77,833</u></u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2014**

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
<b>Governmental Activities</b>						
2003 Installment Loan - Vacant Land	3.65%	3/4/14	\$ 16,856	\$ 3,370	\$ -	\$ 20,226
Amount of issue - \$225,000	3.65%	3/4/15	17,471	2,755	-	20,226
Date of issue - 6/18/12	3.65%	3/4/16	18,103	2,123	-	20,226
	3.65%	3/4/17	18,769	1,457	-	20,226
	3.65%	3/4/18	21,112	771	-	21,883
			<u>\$ 92,311</u>	<u>\$ 10,476</u>	<u>\$ -</u>	<u>\$ 102,787</u>
2006 Installment Loan - Vacant Land	3.89%	7/12/14	\$ 20,229	\$ 7,222	\$ -	\$ 27,451
Amount of issue - \$300,000	3.89%	7/12/15	21,016	6,435	-	27,451
Date of issue - 7/12/06	3.89%	7/12/16	21,833	5,618	-	27,451
	3.89%	7/12/17	22,683	4,768	-	27,451
	3.89%	7/12/18	23,565	3,886	-	27,451
	3.89%	7/12/19	24,482	2,969	-	27,451
	3.89%	7/12/20	25,434	2,017	-	27,451
	3.89%	7/12/21	25,920	1,027	-	26,947
			<u>\$ 185,162</u>	<u>\$ 33,942</u>	<u>\$ -</u>	<u>\$ 219,104</u>

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2014**

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
<b>Business-type Activities</b>						
Water Supply System Revenue	4.025%	5/1/14	\$ 39,000	\$ 11,894	\$ -	\$ 50,894
Bonds, Series 2011	4.025%	11/1/14	40,000	11,109	-	51,109
Amount of issue - \$840,000	4.025%	5/1/15	44,000	10,304	-	54,304
Date of issue - 8/31/11	4.025%	11/1/15	44,000	9,419	-	53,419
	4.025%	5/1/16	46,000	8,533	-	54,533
	4.025%	11/1/16	46,000	7,607	-	53,607
	4.025%	5/1/17	45,000	6,682	-	51,682
	4.025%	11/1/17	45,000	5,776	-	50,776
	4.025%	5/1/18	32,000	4,870	-	36,870
	4.025%	11/1/18	31,000	4,226	-	35,226
	4.025%	5/1/19	30,000	3,602	-	33,602
	4.025%	11/1/19	31,000	2,999	-	33,999
	4.025%	5/1/20	30,000	2,375	-	32,375
	4.025%	11/1/20	30,000	1,771	-	31,771
	4.025%	5/1/21	29,000	1,167	-	30,167
	4.025%	11/1/21	29,000	584	-	29,584
			\$ 591,000	\$ 92,918	\$ -	\$ 683,918

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2014**

<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%	9/1/14	\$ 50,000	\$ 69,259	\$ 69,259	\$ 188,518
Bonds Series 2005 A	4.125%	9/1/15	52,000	68,228	68,228	188,455
Amount of issue - \$3,690,000	4.125%	9/1/16	55,000	67,155	67,155	189,310
Date of issue - 9/25/05	4.125%	9/1/17	57,000	66,021	66,021	189,041
	4.125%	9/1/18	59,000	64,845	64,845	188,690
	4.125%	9/1/19	62,000	63,628	63,628	189,256
	4.125%	9/1/20	65,000	62,349	62,349	189,699
	4.125%	9/1/21	68,000	61,009	61,009	190,018
	4.125%	9/1/22	71,000	59,606	59,606	190,213
	4.125%	9/1/23	74,000	58,142	58,142	190,284
	4.125%	9/1/24	77,000	56,616	56,616	190,231
	4.125%	9/1/25	80,000	55,028	55,028	190,055
	4.125%	9/1/26	84,000	53,378	53,378	190,755
	4.125%	9/1/27	87,000	51,645	51,645	190,290
	4.125%	9/1/28	91,000	49,851	49,851	190,701
	4.125%	9/1/29	95,000	47,974	47,974	190,948
	4.125%	9/1/30	99,000	46,014	46,014	191,029
	4.125%	9/1/31	104,000	43,973	43,973	191,945
	4.125%	9/1/32	108,000	41,828	41,828	191,655
	4.125%	9/1/33	113,000	39,600	39,600	192,200
	4.125%	9/1/34	118,000	37,269	37,269	192,539
	4.125%	9/1/35	123,000	34,836	34,836	192,671
	4.125%	9/1/36	128,000	32,299	32,299	192,598
	4.125%	9/1/37	134,000	29,659	29,659	193,318
	4.125%	9/1/38	140,000	26,895	26,895	193,790
	4.125%	9/1/39	146,000	24,008	24,008	194,015
	4.125%	9/1/40	152,000	20,996	20,996	193,993
	4.125%	9/1/41	159,000	17,861	17,861	194,723
	4.125%	9/1/42	166,000	14,582	14,582	195,164
	4.125%	9/1/43	173,000	11,158	11,158	195,316
	4.125%	9/1/44	181,000	7,590	7,590	196,180
	4.125%	9/1/45	187,000	3,857	3,857	194,714
			\$ 3,358,000	\$ 1,387,155	\$ 1,387,155	\$ 6,132,310

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2014**

<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%	9/1/14	\$ 23,000	\$ 30,793	\$ 30,793	\$ 84,586
Bonds Series 2005 B	4.125%	9/1/15	24,000	30,319	30,319	84,638
Amount of issue - \$1,650,000	4.125%	9/1/16	25,000	29,824	29,824	84,648
Date of issue - 9/25/05	4.125%	9/1/17	26,000	29,308	29,308	84,616
	4.125%	9/1/18	27,000	28,772	28,772	84,544
	4.125%	9/1/19	28,000	28,215	28,215	84,430
	4.125%	9/1/20	30,000	27,638	27,638	85,275
	4.125%	9/1/21	31,000	27,019	27,019	85,038
	4.125%	9/1/22	32,000	26,379	26,379	84,759
	4.125%	9/1/23	33,000	25,719	25,719	84,439
	4.125%	9/1/24	35,000	25,039	25,039	85,078
	4.125%	9/1/25	36,000	24,317	24,317	84,634
	4.125%	9/1/26	38,000	23,574	23,574	85,149
	4.125%	9/1/27	39,000	22,791	22,791	84,581
	4.125%	9/1/28	41,000	21,986	21,986	84,973
	4.125%	9/1/29	43,000	21,141	21,141	85,281
	4.125%	9/1/30	44,000	20,254	20,254	84,508
	4.125%	9/1/31	46,000	19,346	19,346	84,693
	4.125%	9/1/32	48,000	18,398	18,398	84,795
	4.125%	9/1/33	50,000	17,408	17,408	84,815
	4.125%	9/1/34	52,000	16,376	16,376	84,753
	4.125%	9/1/35	54,000	15,304	15,304	84,608
	4.125%	9/1/36	57,000	14,190	14,190	85,380
	4.125%	9/1/37	59,000	13,014	13,014	85,029
	4.125%	9/1/38	61,000	11,798	11,798	84,595
	4.125%	9/1/39	64,000	10,539	10,539	85,079
	4.125%	9/1/40	66,000	9,219	9,219	84,439
	4.125%	9/1/41	69,000	7,858	7,858	84,716
	4.125%	9/1/42	72,000	6,435	6,435	84,870
	4.125%	9/1/43	75,000	4,950	4,950	84,900
	4.125%	9/1/44	78,000	3,403	3,403	84,806
	4.125%	9/1/45	87,000	1,794	1,794	90,589
			\$ 1,493,000	\$ 613,119	\$ 613,119	\$ 2,719,239

**City of Sandusky**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**February 28, 2014**

<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%	11/1/14	\$ 20,000	\$ 25,203	\$ 25,203	\$ 70,406
Revenue Bonds Series 2005 A	4.25%	11/1/15	20,000	24,778	24,778	69,556
Amount of issue - \$1,346,000	4.25%	11/1/16	25,000	24,353	24,353	73,706
Date of issue - 11/16/05	4.25%	11/1/17	25,000	23,821	23,821	72,642
	4.25%	11/1/18	30,000	23,290	23,290	76,580
	4.25%	11/1/19	30,000	22,653	22,653	75,306
	4.25%	11/1/20	30,000	22,015	22,015	74,030
	4.25%	11/1/21	30,000	21,378	21,378	72,756
	4.25%	11/1/22	30,000	20,740	20,740	71,480
	4.25%	11/1/23	30,000	20,103	20,103	70,206
	4.25%	11/1/24	30,000	19,465	19,465	68,930
	4.25%	11/1/25	30,000	18,828	18,828	67,656
	4.25%	11/1/26	30,000	18,190	18,190	66,380
	4.25%	11/1/27	30,000	17,553	17,553	65,106
	4.25%	11/1/28	30,000	16,915	16,915	63,830
	4.25%	11/1/29	31,000	16,278	16,278	63,556
	4.25%	11/1/30	32,000	15,619	15,619	63,238
	4.25%	11/1/31	34,000	14,939	14,939	63,878
	4.25%	11/1/32	35,000	14,216	14,216	63,432
	4.25%	11/1/33	37,000	13,473	13,473	63,946
	4.25%	11/1/34	39,000	12,686	12,686	64,372
	4.25%	11/1/35	40,000	11,858	11,858	63,716
	4.25%	11/1/36	42,000	11,008	11,008	64,016
	4.25%	11/1/37	44,000	10,115	10,115	64,230
	4.25%	11/1/38	46,000	9,180	9,180	64,360
	4.25%	11/1/39	48,000	8,203	8,203	64,406
	4.25%	11/1/40	50,000	7,183	7,183	64,366
	4.25%	11/1/41	52,000	6,120	6,120	64,240
	4.25%	11/1/42	55,000	5,015	5,015	65,030
	4.25%	11/1/43	57,000	3,846	3,846	64,692
	4.25%	11/1/44	60,000	2,635	2,635	65,270
	4.25%	11/1/45	64,000	1,360	1,360	66,720
			<u>\$ 1,186,000</u>	<u>\$ 483,019</u>	<u>\$ 483,019</u>	<u>\$ 2,152,038</u>



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

### **INDEPENDENT AUDITOR'S REPORT**

Management and 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, 2014, 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 June 13, 2014.

#### **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 opinion 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.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **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 are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
June 13, 2014