

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Sandusky	County Sanilac
Fiscal Year End 2/28/07	Opinion Date June 13, 2007	Date Audit Report Submitted to State 7/12/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | | |
|-----|-------------------------------------|-------------------------------------|---|
| | YES | NO | Check each applicable box below. (See instructions for further detail.) |
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Single Audit Report	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, PC		Telephone Number (989) 793-9830	
Street Address 3023 Davenport Avenue		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Mari McKenzie	License Number
			Zip 48602

City of Sandusky
Sanilac County, Michigan
Annual Financial Statements
and
Auditors' Report
February 28, 2007

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City of Sandusky
List of Elected and Appointed Officials
February 28, 2007

City Council

Thomas Lukshaitis - Mayor

Steve Polewach - Councilperson

Keith Costine - Councilperson

Rick Cook - Councilperson

Virginia Bissett - Councilperson

Lupe Vandercook - Councilperson

Marguerite McNiven - Councilperson

Other Officers and Officials

Lou LaPonsie - City Manager

Laurie Thompson - City Clerk

E. Keith Phillips - Treasurer



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Saginaw, MI 48602
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky as of and for the year ended February 28, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sandusky as of February 28, 2007 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2007 on our consideration of the City of Sandusky internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Yeo & Yeo, P.C.

June 13, 2007
Saginaw, Michigan

City of Sandusky
Management's Discussion and Analysis
February 28, 2007

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, 2007. It should be read in conjunction with the City's financial statements, which begin on page 4-1.

This annual report consists of a series of financial statements. The Statement of Net Assets (on page 4-1) and the Statement of Activities (on page 4-2) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 4-3. For governmental activities, these statements explain how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The City's combined net assets increased 33% from a year ago – increasing from \$ 7.6 million to \$ 10.1 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$ 1.1 million during the year, primarily as a result of park improvements that were financed with grants and contributions. The business-type activities experienced a \$ 1.4 million increase in net assets.

City of Sandusky
Management's Discussion and Analysis
February 28, 2007

Following is an analysis of the major components of the net assets of the City as of February 28, 2007.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Other assets	\$ 3,536,180	\$ 3,428,200	\$ 1,447,894	\$ 825,055	\$ 4,984,074	\$ 4,253,255
Capital assets	<u>2,745,864</u>	<u>1,653,100</u>	<u>12,391,363</u>	<u>7,283,894</u>	<u>15,137,227</u>	<u>8,936,994</u>
Total assets	<u>6,282,044</u>	<u>5,081,300</u>	<u>13,839,257</u>	<u>8,108,949</u>	<u>20,121,301</u>	<u>13,190,249</u>
Liabilities						
Other liabilities	354,279	73,464	719,141	1,440,737	1,073,420	1,514,201
Noncurrent liabilities	<u>1,135,534</u>	<u>1,294,200</u>	<u>7,843,269</u>	<u>2,811,299</u>	<u>8,978,803</u>	<u>4,105,499</u>
Total liabilities	<u>1,489,813</u>	<u>1,367,664</u>	<u>8,562,410</u>	<u>4,252,036</u>	<u>10,052,223</u>	<u>5,619,700</u>
Net assets						
Invested in capital assets -						
Net of related debt	1,551,274	515,077	4,554,857	4,539,879	6,106,131	5,054,956
Restricted	63,898	63,784	234,249	223,384	298,147	287,168
Unrestricted	<u>3,177,059</u>	<u>3,134,775</u>	<u>487,741</u>	<u>(906,350)</u>	<u>3,664,800</u>	<u>2,228,425</u>
Total net assets	<u>\$ 4,792,231</u>	<u>\$ 3,713,636</u>	<u>\$ 5,276,847</u>	<u>\$ 3,856,913</u>	<u>\$ 10,069,078</u>	<u>\$ 7,570,549</u>

City of Sandusky
Management's Discussion and Analysis
February 28, 2007

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program revenues						
Charges for services	\$ 361,215	\$ 330,486	\$ 1,403,587	\$ 1,241,936	\$ 1,764,802	\$ 1,572,422
Operating grants and contributions	261,874	266,372	-	-	261,874	266,372
Capital grants and contributions	827,097	439,236	1,261,396	73,183	2,088,493	512,419
General revenues						
Property taxes	1,405,818	1,257,694	-	-	1,405,818	1,257,694
State shared revenue	431,928	557,119	-	-	431,928	557,119
Unrestricted investment income	117,661	69,303	50,090	19,441	167,751	88,744
Gain on sale of capital assets	-	2,682	-	-	-	2,682
Miscellaneous	29,867	33,693	21,590	33,079	51,457	66,772
Total revenues	<u>3,435,460</u>	<u>2,956,585</u>	<u>2,736,663</u>	<u>1,367,639</u>	<u>6,172,123</u>	<u>4,324,224</u>
Program expenses						
General government	473,430	456,893	-	-	473,430	456,893
Public safety	639,649	568,148	-	-	639,649	568,148
Public works	734,560	742,803	-	-	734,560	742,803
Health and welfare	319,858	287,089	-	-	319,858	287,089
Community and economic development	955	2,847	-	-	955	2,847
Recreation and culture	109,668	112,019	-	-	109,668	112,019
Interest on long-term debt	78,745	77,854	-	-	78,745	77,854
Sewer	-	-	864,739	648,125	864,739	648,125
Water	-	-	451,990	381,284	451,990	381,284
Total expenses	<u>2,356,865</u>	<u>2,247,653</u>	<u>1,316,729</u>	<u>1,029,409</u>	<u>3,673,594</u>	<u>3,277,062</u>
Change in net assets	<u>\$ 1,078,595</u>	<u>\$ 708,932</u>	<u>\$ 1,419,934</u>	<u>\$ 338,230</u>	<u>\$ 2,498,529</u>	<u>\$ 1,047,162</u>

City of Sandusky
Management's Discussion and Analysis
February 28, 2007

Governmental Activities

The City's total governmental activities revenues were \$3,435,460. This is a 16% increase over last year. The increase is primarily related to grants for the airport renovations and park improvements.

The City's total governmental activities expenses were \$2,356,865. This is a 5% increase over last year.

Business-type Activities

The City's total business-type activities revenues were \$2,736,663. This is a 100% increase over last year. The increase is primarily related to the major projects financed by Rural Development.

The City's total business-type activities expenses were \$1,316,729. This is a 28% increase over last year.

The sewer fund operations remained consistent with the prior year. There were no major changes to sewer rates and no major sewer system improvement projects started in the current year. There are no major changes in sewer rates anticipated in the next budget year. The waste water treatment plant improvements will continue into the next budget year.

The water fund received USDA Rural Development loans in excess of \$1.5 million to cover costs related to the government mandated arsenic removal plant, which was completed in the current year. There were no major changes to fees charged to customers. For the next budget year, there are no major changes in fees charged or improvement projects.

The City's Funds

Our analysis of the City's major funds begins on page 4-3, 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 2006-07 include the General, Major Street, Local Street, Senior Citizens Housing, Airport, Sewer and Water Funds.

The General Fund pays for most of the City's governmental services and is financed by the general operating millage and state revenue sharing. The most significant services are police protection, which incurred expenditures of \$504,064 in 2006-07. There are no major changes in revenue or projects anticipated in the next year budget.

City of Sandusky
Management's Discussion and Analysis
February 28, 2007

The Major Street Fund is funded by state and county revenue provided to cover maintenance costs associated with the major streets within the City. Subsequent to year end, construction has started on Argyle Street. It is currently the only major project anticipated in the next year budget.

The Local Street Fund is funded by state and county revenue provided to cover maintenance costs associated with the local streets within the City. There are no major changes in revenue or projects anticipated in the next year budget.

The Senior Citizens Housing Fund is funded by federal grants and rental income from residents. The construction of the new apartments for senior citizens on the east side of town will be completed and ready for occupancy in fiscal year 2008.

The Airport Fund is funded by state grants and charges for services. The airport is in an ongoing capital improvement program that is being funded partially by the Michigan Bureau of Aeronautics. It was originally a five year plan but with state budget problems it probably will take longer to complete.

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget. The significant budget changes included the following:

- Building and grounds increased \$56,500 to accommodate additional legal expenses and tax tribunal adjustment.
- Local streets was increased \$32,000 for construction of the street at the park.
- Capital outlay was increased \$304,991 for a land purchase.

Capital Asset and Debt Administration

At the end of fiscal year 2006-07, the City had \$15,137,227 in a broad range of capital assets, including buildings, police equipment and water and sewer lines. Capital asset increases during the year included airport renovations, park improvements, land purchase, arsenic removal plant and waste water treatment plant improvements.

The City also has governmental activity long-term debt of \$778,653 in installment purchase agreements, \$375,000 in general obligation bonds, \$40,937 in capital leases, and \$163,270 in compensated absences. Debt attributable to business-type activities includes \$7,836,506 in bonds payable and \$141,377 in compensated absences. New debt issued in the current was installment loan for the purchase of industrial park property.

City of Sandusky
Management's Discussion and Analysis
February 28, 2007

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2007-08 includes expenditures for completion of the wastewater treatment plant improvements and reconstruction of Argyle Street.

Contacting the Government

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

City of Sandusky
Statement of Net Assets
February 28, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,669,118	\$ 738,129	\$ 3,407,247
Investments	199,729	-	199,729
Receivables			
Taxes	152,569	-	152,569
Customers	33,140	353,068	386,208
Special assessments	-	1,362	1,362
Accrued interest and other	10,949	-	10,949
Due from other units of government	123,736	468,025	591,761
Internal balances	346,939	(346,939)	-
Restricted assets			
Cash and cash equivalents	-	234,249	234,249
Capital assets not being depreciated	1,449,043	6,540,873	7,989,916
Capital assets, net of accumulated depreciation	1,296,821	5,850,490	7,147,311
Total assets	<u>6,282,044</u>	<u>13,839,257</u>	<u>20,121,301</u>
Liabilities			
Accounts payable	45,826	526,362	572,188
Accrued and other liabilities	86,127	58,165	144,292
Noncurrent liabilities			
Due within one year	222,326	134,614	356,940
Due in more than one year	1,135,534	7,843,269	8,978,803
Total liabilities	<u>1,489,813</u>	<u>8,562,410</u>	<u>10,052,223</u>
Net assets			
Invested in capital assets, net of related debt	1,551,274	4,554,857	6,106,131
Restricted for:			
Drug forfeiture	2,452	-	2,452
Debt	-	234,249	234,249
Perpetual care	61,446	-	61,446
Unrestricted	3,177,059	487,741	3,664,800
Total net assets	<u>\$ 4,792,231</u>	<u>\$ 5,276,847</u>	<u>\$ 10,069,078</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Activities
Year Ended February 28, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Functions/Programs							
Primary government							
Governmental activities							
General government	\$ 473,430	\$ 38,340	\$ -	\$ -	\$ (435,090)	\$ -	\$ (435,090)
Public safety	639,649	18,861	-	-	(620,788)	-	(620,788)
Public works	734,560	133,971	-	705,289	104,700	-	104,700
Health and welfare	319,858	142,572	260,026	-	82,740	-	82,740
Community and economic development	955	976	-	-	21	-	21
Recreation and culture	109,668	26,495	1,848	121,808	40,483	-	40,483
Interest on long-term debt	78,745	-	-	-	(78,745)	-	(78,745)
Total governmental activities	<u>2,356,865</u>	<u>361,215</u>	<u>261,874</u>	<u>827,097</u>	<u>(906,679)</u>	<u>-</u>	<u>(906,679)</u>
Business-type activities							
Sewer	864,739	851,547	-	1,259,185	-	1,245,993	1,245,993
Water	451,990	552,040	-	2,211	-	102,261	102,261
Total business-type activities	<u>1,316,729</u>	<u>1,403,587</u>	<u>-</u>	<u>1,261,396</u>	<u>-</u>	<u>1,348,254</u>	<u>1,348,254</u>
Total primary government	<u>\$ 3,673,594</u>	<u>\$ 1,764,802</u>	<u>\$ 261,874</u>	<u>\$ 2,088,493</u>	<u>(906,679)</u>	<u>1,348,254</u>	<u>441,575</u>
General revenues							
Property taxes					1,405,818	-	1,405,818
State shared revenue					431,928	-	431,928
Unrestricted investment earnings					117,661	50,090	167,751
Miscellaneous					29,867	21,590	51,457
Total general revenues and transfers					<u>1,985,274</u>	<u>71,680</u>	<u>2,056,954</u>
Change in net assets					<u>1,078,595</u>	<u>1,419,934</u>	<u>2,498,529</u>
Net assets - beginning of year					3,634,472	3,856,913	7,491,385
Prior period adjustment					79,164	-	79,164
Net assets - beginning of year (restated)					<u>3,713,636</u>	<u>3,856,913</u>	<u>7,570,549</u>
Net assets - end of year					<u>\$ 4,792,231</u>	<u>\$ 5,276,847</u>	<u>\$ 10,069,078</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Balance Sheet
February 28, 2007

	Special Revenue Funds						Total Governmental Funds
	General	Major Street	Local Street	Senior Citizens Housing	Airport	Other Governmental Funds	
Assets							
Cash and cash equivalents	\$ 1,985,992	\$ 262,871	\$ 50,347	\$ 90,337	\$ 9,524	\$ 72,178	\$ 2,471,249
Investments	149,729	-	-	50,000	-	-	199,729
Receivables							
Taxes	130,091	-	-	-	-	-	130,091
Customers	24,702	-	-	8,438	-	-	33,140
Accrued interest and other	10,872	-	-	77	-	-	10,949
Due from other units of government	88,760	24,730	10,246	-	-	-	123,736
Due from other funds	6,200	-	-	-	-	-	6,200
Advances to other funds	401,325	-	-	-	-	-	401,325
Total assets	\$ 2,797,671	\$ 287,601	\$ 60,593	\$ 148,852	\$ 9,524	\$ 72,178	\$ 3,376,419
Liabilities							
Accounts payable	\$ 21,794	\$ 10,919	\$ 703	\$ 9,683	\$ 993	\$ -	\$ 44,092
Accrued and other liabilities	33,896	1,262	1,148	16,842	454	-	53,602
Deferred revenue	1,403,195	-	-	-	-	-	1,403,195
Total liabilities	1,458,885	12,181	1,851	26,525	1,447	-	1,500,889
Fund balances							
Reserved for:							
Drug forfeiture	2,452	-	-	-	-	-	2,452
Advance to water and sewer funds	401,325	-	-	-	-	-	401,325
Perpetual care	-	-	-	-	-	61,446	61,446
Unreserved							
Designated for:							
Cemetery	16,152	-	-	-	-	-	16,152
City Hall	15,962	-	-	-	-	-	15,962
Industrial Park	53,171	-	-	-	-	-	53,171
Recreation	44,980	-	-	-	-	-	44,980
Police	27,269	-	-	-	-	-	27,269
Senior citizens building	134,216	-	-	-	-	-	134,216
Unreserved, reported in:							
General fund	643,259	-	-	-	-	-	643,259
Special revenue funds	-	275,420	58,742	122,327	8,077	-	464,566
Permanent fund	-	-	-	-	-	10,732	10,732
Total fund balances	1,338,786	275,420	58,742	122,327	8,077	72,178	1,875,530
Total liabilities and fund balances	\$ 2,797,671	\$ 287,601	\$ 60,593	\$ 148,852	\$ 9,524	\$ 72,178	\$ 3,376,419

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 28, 2007

Total fund balances for governmental funds	\$ 1,875,530
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,455,531
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	1,403,195
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(32,000)
Compensated absences	(163,270)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(1,160,760)
Internal service funds are included as part of governmental activities.	<u>414,005</u>
Net assets of governmental activities	<u><u>\$ 4,792,231</u></u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended February 28, 2007

	Special Revenue Funds					Other Governmental Funds	Governmental Funds Total
	General	Major Street	Local Street	Senior Citizens Housing	Airport		
Revenues							
Taxes	\$ 1,254,031	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,254,031
Licenses and permits	3,102	-	-	-	-	-	3,102
Federal grants	-	-	-	260,026	430,771	-	690,797
State revenue sharing	290,460	-	-	-	-	-	290,460
Other state grants	43,664	156,310	56,833	-	141,468	-	398,275
Local contributions	4,000	60,613	61,195	-	17,711	-	143,519
Charges for services	152,704	-	-	-	26,733	-	179,437
Fines and forfeitures	425	-	-	-	-	-	425
Interest income	79,963	11,241	5,057	8,047	940	3,280	108,528
Rental income	14,874	-	-	144,420	11,593	-	170,887
Other revenue	29,633	5,373	-	49	24	-	35,079
Total revenues	1,872,856	233,537	123,085	412,542	629,240	3,280	3,274,540
Expenditures							
Current							
General government	473,430	-	-	-	-	-	473,430
Public safety	587,949	-	-	-	-	-	587,949
Public works	406,427	104,291	186,357	-	60,703	-	757,778
Health and welfare	-	-	-	319,858	-	-	319,858
Community and economic development	955	-	-	-	-	-	955
Recreation and culture	109,668	-	-	-	-	-	109,668
Capital outlay	431,895	27,346	17,487	-	589,999	-	1,066,727
Debt service							
Principal retirement	60,487	-	-	-	20,520	125,000	206,007
Interest and fiscal charges	22,762	-	-	-	2,641	46,250	71,653
Total expenditures	2,093,573	131,637	203,844	319,858	673,863	171,250	3,594,025
Excess (deficiency) of revenues over expenditures	(220,717)	101,900	(80,759)	92,684	(44,623)	(167,970)	(319,485)
Other financing sources (uses)							
Transfers in	-	-	107,605	-	44,961	172,735	325,301
Transfers out	(118,801)	(35,250)	-	(171,250)	-	-	(325,301)
Issuance of debt	300,000	-	-	-	-	-	300,000
Total other financing sources and uses	181,199	(35,250)	107,605	(171,250)	44,961	172,735	300,000
Net change in fund balance	(39,518)	66,650	26,846	(78,566)	338	4,765	(19,485)
Fund balance - beginning of year	1,378,304	208,770	31,896	200,893	7,739	67,413	1,895,015
Fund balance - end of year	\$ 1,338,786	\$ 275,420	\$ 58,742	\$ 122,327	\$ 8,077	\$ 72,178	\$ 1,875,530

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended February 28, 2007

Net change in fund balances - total governmental funds	\$ (19,485)
Total change in net assets 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	(82,063)
Capital outlay	1,055,516
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	151,787
Expenses are recorded when incurred in the statement of activities	
Accrued interest	(3,000)
Compensated absences	21,907
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Debt issued	(300,000)
Repayments of long-term debt	206,007
Internal service funds are also included as governmental activities	47,926
Change in net assets of governmental activities	\$ 1,078,595

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 28, 2007

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 424,404	\$ 313,725	\$ 738,129	\$ 197,869
Receivables				
Customers	218,871	134,197	353,068	-
Special assessments, current	-	1,362	1,362	-
Due from other units of government	468,025	-	468,025	-
Due from other funds	15,825	25,755	41,580	-
Total current assets	1,127,125	475,039	1,602,164	197,869
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	219	234,030	234,249	-
Capital assets not being depreciated	6,540,873	-	6,540,873	-
Capital assets, net of accumulated depreciation	2,672,086	3,178,404	5,850,490	290,333
Total noncurrent assets	9,213,178	3,412,434	12,625,612	290,333
Total assets	10,340,303	3,887,473	14,227,776	488,202
Liabilities				
Current liabilities				
Accounts payable	520,380	5,982	526,362	1,734
Accrued and other liabilities	12,373	45,792	58,165	525
Due to other funds	19,102	6,200	25,302	-
Current portion of noncurrent liabilities	54,432	80,182	134,614	10,473
Total current liabilities	606,287	138,156	744,443	12,732

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 28, 2007

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Noncurrent liabilities				
Advances from other funds	\$ 105,331	\$ 295,994	\$ 401,325	\$ -
Long-term debt net of current portion	5,355,033	2,488,236	7,843,269	23,357
Total noncurrent liabilities	5,460,364	2,784,230	8,244,594	23,357
Total liabilities	6,066,651	2,922,386	8,989,037	36,089
Net assets				
Invested in capital assets, net of related debt	3,926,286	628,571	4,554,857	256,503
Restricted for:				
Debt	219	234,030	234,249	-
Unrestricted	347,147	102,486	449,633	195,610
Total net assets	\$ 4,273,652	\$ 965,087	5,238,739	\$ 452,113
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			38,108	
Net assets of business-type activities			\$ 5,276,847	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended February 28, 2007

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Operating revenue				
Customer fees	\$ 844,473	\$ 552,040	\$ 1,396,513	\$ -
Billings to other funds	-	-	-	150,633
Other revenue	16,146	5,444	21,590	855
Total operating revenue	860,619	557,484	1,418,103	151,488
Operating expenses				
Personnel services	386,305	163,239	549,544	22,969
Supplies	57,068	16,730	73,798	20,266
Contractual services	24,681	2,459	27,140	615
Utilities	69,864	23,667	93,531	-
Repairs and maintenance	14,044	27,052	41,096	14,642
Other expenses	47,879	44,164	92,043	10,364
Depreciation	107,538	64,361	171,899	26,384
Total operating expenses	707,379	341,672	1,049,051	95,240
Operating income	153,240	215,812	369,052	56,248

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended February 28, 2007

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Nonoperating revenue (expenses)				
Federal grant	\$ 1,259,185	\$ -	\$ 1,259,185	\$ -
Interest income	23,459	26,631	50,090	9,133
Loss on sale of assets	-	-	-	(1,126)
Interest expense	<u>(158,462)</u>	<u>(121,453)</u>	<u>(279,915)</u>	<u>(4,092)</u>
Total nonoperating revenues (expenses)	<u>1,124,182</u>	<u>(94,822)</u>	<u>1,029,360</u>	<u>3,915</u>
Income before contributions and transfers out	1,277,422	120,990	1,398,412	60,163
Capital contributions	<u>7,074</u>	<u>2,211</u>	<u>9,285</u>	<u>-</u>
Change in net assets	1,284,496	123,201	1,407,697	60,163
Net assets - beginning of year	<u>2,989,156</u>	<u>841,886</u>		<u>391,950</u>
Net assets - end of year	<u><u>\$ 4,273,652</u></u>	<u><u>\$ 965,087</u></u>		<u><u>\$ 452,113</u></u>
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>12,237</u>	
Change in net assets of business-type activities			<u><u>\$ 1,419,934</u></u>	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 28, 2007

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Cash flows from operating activities				
Receipts from customers	\$ 368,412	\$ 547,994	\$ 916,406	\$ 855
Receipts from interfund users	-	-	-	150,633
Payments to suppliers	(748,073)	(402,267)	(1,150,340)	(46,021)
Payments to employees	(386,305)	(163,239)	(549,544)	(22,969)
Payments for interfund services used	(3,027)	(30,451)	(33,478)	-
Net cash provided (used) by operating activities	(768,993)	(47,963)	(816,956)	82,498
Cash flows from noncapital financing activities				
Federal grant	1,259,185	-	1,259,185	-
Cash flows from capital and related financing activities				
Proceeds from capital debt	4,540,000	730,000	5,270,000	-
Proceeds from special assessments	-	11,312	11,312	-
Capital contributions	7,074	2,211	9,285	-
Purchases/construction of capital assets	(4,803,760)	(475,608)	(5,279,368)	(145,695)
Principal and interest paid on long-term debt	(171,473)	(211,858)	(383,331)	(12,518)
Loss on sale of capital assets	-	-	-	(1,126)
Net cash provided (used) by capital and related financing activities	(428,159)	56,057	(372,102)	(159,339)
Cash flows from investing activities				
Interest received	23,459	26,631	50,090	9,133
Net increase (decrease) in cash and cash equivalents	85,492	34,725	120,217	(67,708)
Cash and cash equivalents - beginning of year	339,131	513,030	852,161	265,577
Cash and cash equivalents - end of year	\$ 424,623	\$ 547,755	\$ 972,378	\$ 197,869

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
Year Ended February 28, 2007

	Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 153,240	\$ 215,812	\$ 369,052	\$ 56,248
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	107,538	64,361	171,899	26,384
Changes in assets and liabilities				
Receivables (net)	(24,182)	(9,490)	(33,672)	-
Due from other units of government	(468,025)	-	(468,025)	-
Accounts payable	(526,128)	(336,487)	(862,615)	(306)
Accrued and other liabilities	(4,276)	17,841	13,565	172
Due to other units of government	(7,160)	-	(7,160)	-
Net cash provided (used) by operating activities	\$ (768,993)	\$ (47,963)	\$ (816,956)	\$ 82,498

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Net Assets
February 28, 2007

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 169,852	\$ 135,743
Investments	43,184	-
Receivables		
Accrued interest and other	25	-
Total assets	213,061	\$ 135,743
Liabilities		
Due to other funds	22,478	\$ -
Due to other units of government	-	135,743
Total liabilities	22,478	\$ 135,743
Net assets		
Held in trust for pension benefits and other purposes	\$ 190,583	

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Changes in Net Assets
Year Ended February 28, 2007

	<u>Pension and Other Employee Benefit Trust Funds</u>
Additions	
Contributions Employer	\$ 28,788
Investment earnings	
Interest	<u>10,541</u>
Change in net assets	39,329
Net assets - beginning of year	<u>151,254</u>
Net assets - end of year	<u><u>\$ 190,583</u></u>

See Accompanying Notes to Financial Statements

City of Sandusky
Notes to Financial Statements
February 28, 2007

Note 1 - Summary of Significant Accounting Policies

Reporting entity

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

Government-wide and fund financial statements

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

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

Separate financial statements are provided for governmental funds,

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

Measurement focus, basis of accounting, and financial statement presentation

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

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

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

City of Sandusky
Notes to Financial Statements
February 28, 2007

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

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

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

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

The government reports the following major proprietary funds:

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

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

Additionally, the government reports the following:

The Permanent Fund accounts for perpetual cemetery resources and expenditures.

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

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

The Pension and Other Employee Benefit Trust Funds account for the activities of employee benefit plans that accumulate resources for pension and other post-employment benefit payments to qualified employees.

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

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

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

City of Sandusky
Notes to Financial Statements
February 28, 2007

charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

Assets, liabilities, and net assets or equity

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

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

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

The 2006 taxable valuation of the government totaled \$73,054,874, on which ad valorem taxes consisted of 19.5 mills for operating purposes. This resulted in \$1,403,195 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

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

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

City of Sandusky
Notes to Financial Statements
February 28, 2007

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

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

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

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

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

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

Comparative data

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary information

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

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

City of Sandusky
Notes to Financial Statements
February 28, 2007

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

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

Excess of expenditures over appropriations

	Final Budget	Actual	Variance
Airport Fund	\$ 85,361	\$ 673,863	\$ 588,502

The Airport expansion performed through the Michigan Department of Transportation was not included in the budget of the Airport Fund. The revenue and expenditures for the expansion was \$589,950

Note 3 - Deposits and Investments

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

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Scudder Balanced Fd - A	\$ 6,476	Daily	Unrated	
Scudder High Income Fd - A	28,937	Daily	BB	Moody's
American Life Annuity	7,771		Unrated	

The investments are held in a pension plan administered by Midwest Pension Actuaries, Inc.

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

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

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

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$4,067,356 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

City of Sandusky
Notes to Financial Statements
February 28, 2007

Note 4 - Receivables and Deferred Revenue

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

	<u>Unavailable</u>
Primary government	
Property taxes	<u>\$ 1,403,195</u>

Note 5 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 343,350	\$ 302,550	\$ -	\$ 645,900
Construction in progress	<u>279,924</u>	<u>616,661</u>	<u>93,442</u>	<u>803,143</u>
Total capital assets not being depreciated	<u>623,274</u>	<u>919,211</u>	<u>93,442</u>	<u>1,449,043</u>
Capital assets being depreciated				
Land improvements	150,000	186,120	-	336,120
Infrastructure	161,149	17,487	-	178,636
Buildings, additions and improvements	394,831	80,346	-	475,177
Machinery and equipment	568,608	91,489	-	660,097
Vehicles	<u>360,967</u>	<u>-</u>	<u>-</u>	<u>360,967</u>
Total capital assets being depreciated	<u>1,635,555</u>	<u>375,442</u>	<u>-</u>	<u>2,010,997</u>
Less accumulated depreciation for				
Land improvements	-	11,222	-	11,222
Infrastructure	10,616	11,326	-	21,942
Buildings, additions and improvements	15,793	18,000	-	33,793
Machinery and equipment	270,514	44,086	-	314,600
Vehicles	<u>308,806</u>	<u>23,813</u>	<u>-</u>	<u>332,619</u>
Total accumulated depreciation	<u>605,729</u>	<u>108,447</u>	<u>-</u>	<u>714,176</u>
Net capital assets being depreciated	<u>1,029,826</u>	<u>266,995</u>	<u>-</u>	<u>1,296,821</u>
Governmental activities capital assets, net	<u>\$ 1,653,100</u>	<u>\$ 1,186,206</u>	<u>\$ 93,442</u>	<u>\$ 2,745,864</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 2,845,195	\$ 4,785,579	\$ 1,089,901	\$ 6,540,873
Capital assets being depreciated				
Machinery and equipment	271,325	-	-	271,325
Vehicles	6,268	-	-	6,268
Water system	2,315,087	1,472,873	-	3,787,960
Sewer system	<u>4,720,219</u>	<u>110,817</u>	<u>-</u>	<u>4,831,036</u>
Total capital assets being depreciated	<u>7,312,899</u>	<u>1,583,690</u>	<u>-</u>	<u>8,896,589</u>
Less accumulated depreciation for				
Machinery and equipment	196,122	12,916	-	209,038
Vehicles	6,268	-	-	6,268
Water system	545,195	64,361	-	609,556
Sewer system	<u>2,126,615</u>	<u>94,622</u>	<u>-</u>	<u>2,221,237</u>
Total accumulated depreciation	<u>2,874,200</u>	<u>171,899</u>	<u>-</u>	<u>3,046,099</u>
Net capital assets being depreciated	<u>4,438,699</u>	<u>1,411,791</u>	<u>-</u>	<u>5,850,490</u>
Business-type capital assets, net	<u>\$ 7,283,894</u>	<u>\$ 6,197,370</u>	<u>\$ 1,089,901</u>	<u>\$ 12,391,363</u>

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

Governmental activities		
Public safety		\$ 51,700
Public works		30,363
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>26,384</u>
Total governmental activities		<u>108,447</u>
Business-type activities		
Sewer		107,538
Water		<u>64,361</u>
Total business-type activities		<u>171,899</u>
Total primary government		<u>\$ 280,346</u>

City of Sandusky
Notes to Financial Statements
February 28, 2007

Construction commitments

The City has construction contractual commitments in the amount of \$642,500 outstanding at February 28, 2007.

Note 6 - Interfund Receivables, Payable, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due from/to other funds		
General	Water	\$ 6,200
Sewer	Employees Sick Pay	15,825
Water	Employees Sick Pay	6,653
Water	Sewer	<u>19,102</u>
		<u>\$ 47,780</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.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances due to/from other funds		
General	Water	\$ 295,994
General	Sewer	<u>105,331</u>
		<u>\$ 401,325</u>

The "advances due to/from other funds" are a result of zero interest loans made from the general fund to the water and sewer funds for bond payments and construction. Payment terms have not been established.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General	Local Street	\$ 72,355
General	Airport	44,961
General	Cemetery	1,485
Major Street	Local Street	35,250
Senior Citizens	Senior Citizens Debt	<u>171,250</u>
		<u>\$ 325,301</u>

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

Note 7 - Leases

Capital leases

The City has a capital lease for two police vehicles and a backhoe. The future minimum lease payments are as follows:

<u>Year ending February 28,</u>	
2008	\$ 19,626
2009	12,519
2010	<u>12,519</u>
Total minimum lease payments	44,664
Less amount representing interest	<u>3,350</u>
Present value of minimum lease payments	<u>\$ 41,314</u>
Asset	
Machinery and equipment	\$ 99,405
Less accumulated depreciation	<u>31,670</u>
Total	<u>\$ 67,735</u>

City of Sandusky
Notes to Financial Statements
February 28, 2007

Note 8 - Long-Term Debt

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

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
General obligation bonds									
1980 Senior Citizens Housing Project	\$ 2,050,000	11/1/09	9.25%	\$125,000	\$ 500,000	\$ -	\$ 125,000	\$ 375,000	\$ 125,000
Installment purchase agreements									
1999 Runway Rehabilitation Project	40,000	7/14/09	4.50%	4,430 - 4,839	18,137	-	4,239	13,898	4,430
2001 Runway Rehabilitation Project	17,898	6/8/11	4.60%	1,816 - 2,165	11,679	-	1,736	9,943	1,816
2002 Fire Hall Roof	18,683	12/15/06	3.75%	3,995	3,995	-	3,995	-	-
2003 Vacant Land	225,000	3/4/18	4.55%	12,330 -20,113	202,957	-	11,794	191,163	12,330
2003 John Deere Tractor	72,855	3/20/07	4.33%	15,175	29,720	-	14,545	15,175	15,175
2004 Michigan Economic Dev. Corporation	384,152	11/1/13	5.00%	7,794 - 10,765	278,700	-	30,226	248,474	31,765
2006 Vacant Land	300,000	6/30/21	4.69%	14,230 - 27,032	-	300,000	-	300,000	14,230
Total bonds and notes payable					1,045,188	300,000	191,535	1,153,653	204,746
Capital leases									
2005 Ford Crown Victoria	23,309	10/5/06	5.50%	7,365	7,365	-	7,365	-	-
2005 Ford Crown Victoria	21,321	6/13/07	5.60%	7,107	14,214	-	7,107	7,107	7,107
Compensated absences									
Internal service fund obligations					185,177	-	21,907	163,270	-
Capital lease - Backhoe	54,775	2/28/10	4.40% - 6.00%	8,427 - 11,861	42,256	-	8,426	33,830	10,473
Total governmental activities					<u>\$ 1,294,200</u>	<u>\$ 300,000</u>	<u>\$ 236,340</u>	<u>\$ 1,357,860</u>	<u>\$ 222,326</u>

City of Sandusky
Notes to Financial Statements
February 28, 2007

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities									
Bonds and notes payable									
General obligation bonds									
Water Supply System Revenue									
Bonds, Series 2000	\$ 650,000	11/1/17	5.15%-5.80%	\$35,000 - \$50,000	\$ 510,000	\$ -	\$ 35,000	\$ 475,000	\$ 35,000
Water Supply System Revenue									
Bonds, Series 2001	750,000	11/1/21	4.50%-5.40%	25,000 - 75,000	730,000	-	20,000	710,000	25,000
Sewage Disposal System Revenue									
Bonds, Series 2005A	3,690,000	9/1/45	4.25%	37,000 - 187,000	220,000	3,470,000	36,000	3,654,000	37,000
Sewage Disposal System Revenue									
Bonds, Series 2005B	1,650,000	9/1/45	4.25%	18,000 - 87,000	580,000	1,070,000	17,000	1,633,000	18,000
Water Supply System Junior Lien									
Revenue Bonds, Series 2005A	1,346,000	11/1/45	4.25%	20,000 - 64,000	667,000	679,000	20,000	1,326,000	20,000
Water Supply System Junior Lien									
Revenue Bonds, Series 2005B	54,000	11/1/45	4.25%	750 - 2,300	3,000	51,000	750	53,250	750
Special assessment obligations									
1992 Special Assessment Tax Bonds	45,000	11/1/06	6.00%	15,000	15,000	-	15,000	-	-
Less deferred amounts									
For issuance discounts					(15,880)	-	(1,136)	(14,744)	(1,136)
Total bonds payable					2,709,120	5,270,000	142,614	7,836,506	134,614
Compensated absences					102,179	45,866	6,668	141,377	-
Total business-type activities					<u>\$ 2,811,299</u>	<u>\$ 5,315,866</u>	<u>\$ 149,282</u>	<u>\$ 7,977,883</u>	<u>\$ 134,614</u>

City of Sandusky
Notes to Financial Statements
February 28, 2007

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
2008	\$ 204,746	\$ 70,573	\$ 135,750	\$ 344,268
2009	192,677	55,702	142,750	338,110
2010	195,982	37,620	149,750	331,496
2011	69,367	25,832	152,750	324,648
2012	72,740	16,155	161,000	317,640
2013-2017	255,208	67,729	922,600	1,467,053
2018-2022	162,933	20,623	1,004,000	1,240,646
2023-2027	-	-	716,750	1,042,392
2028-2032	-	-	852,750	879,520
2033-2037	-	-	1,050,950	682,206
2038-2042	-	-	1,298,600	438,678
2043-2046	-	-	1,263,600	137,446
	<u>\$ 1,153,653</u>	<u>\$ 294,234</u>	<u>\$ 7,851,250</u>	<u>\$ 7,544,103</u>

Note 9 - Risk Management

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

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

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

Note 10 - Employee Retirement and Benefit Systems

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

Plan as administered by Midwest Pension Actuaries, Inc.

The cost and market value of the pension fund investments administered by MPA at February 28, 2007 are as follows:

	<u>Cost</u>	<u>Market</u>
Scudder Investments	\$ 35,413	\$ 35,413
American Life Annuity	<u>7,771</u>	<u>7,771</u>
Total	<u>\$ 43,184</u>	<u>\$ 43,184</u>

Plan as administered by Michigan Municipal Employees' Retirement System

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

City of Sandusky
Notes to Financial Statements
February 28, 2007

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 16.25%, 6.97% and 19.65% of gross wages for general employees, police and DPW and WWTP union, respectively.

Annual pension costs – For year ended 2007, the government’s annual pension cost of \$150,112 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, 2006, using the entry age normal cost method. Significant actuarial assumptions used include: 1) a 8% investment rate of return; 2) projected salary increases of 4.5 percent per year; and 3) 3% - 4% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	2005	2004	2003
Annual pension cost	\$ 142,324	\$ 146,936	\$ 128,268
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	1,183,736	1,040,830	914,279
Actuarial accrued liabilities	3,014,907	2,856,605	2,623,475
Unfunded AAL	1,831,171	1,815,775	1,709,196
Funded ratio	39.0%	36%	35.0%
Covered payroll	910,409	909,062	896,106
UAAL as a percentage of covered payroll	201%	200%	191%

Note 11 - Post Employment Benefits

In addition to the pension benefits described in the preceding note, the City provides a fixed amount in post-retirement health care benefits per month. Contracts identify specific requirements. There

are no participants receiving benefits, and accordingly there were no expenditures 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.

Note 12 - Contingent Liabilities

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

Note 13 - Prior Period Adjustment

The February 28, 2006 financial statements have been restated to account for the following change in net assets that was due to a capital asset item not being included in the schedule. The following shows the effect of the restatement on net assets.

	Original 2006	Restatement	Restated 2006
Governmental Activities			
Net assets - beginning of year	\$ 3,634,472	\$ -	\$ 3,634,472
Capital assets	-	79,164	79,164
Net assets - beginning of year restated	\$ 3,634,472	\$ 79,164	\$ 3,713,636

City of Sandusky
Notes to Financial Statements
February 28, 2007

Note 14 - Upcoming Accounting And Reporting Changes

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending February 28, 2010.

The Government Accounting Standards Board has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving *receivables* should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after February 28, 2007.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation*

Obligations. This statement addresses how to account for pollution remediation activities of the effects of *existing* pollution. It does not include *prevention* or *control* activities nor future remediation required upon retirement of an asset. In general, a liability will be recorded based on the *current value* of expected costs as estimated using the *expected cash flows method*. This statement is effective for financial statements with periods ending after February 29, 2008. However, measurement is required as of the beginning of the period.

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 28, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 1,240,000	\$ 1,240,000	\$ 1,252,542	\$ 12,542
Penalties and interest	2,400	2,400	1,489	(911)
Licenses and permits	3,100	3,100	3,102	2
State revenue sharing	297,100	297,100	290,460	(6,640)
State grants	41,200	41,200	43,664	2,464
Local contributions	3,500	3,500	4,000	500
Charges for services	146,500	146,500	152,704	6,204
Fines and forfeitures	300	300	425	125
Interest income	33,600	61,600	79,963	18,363
Rental income	14,528	14,528	14,874	346
Other revenue	15,100	15,100	29,633	14,533
Note proceeds	-	300,000	300,000	-
Transfer in	69,934	126,634	-	(126,634)
	<u>1,867,262</u>	<u>2,251,962</u>	<u>2,172,856</u>	<u>(79,106)</u>
Total revenues				
Expenditures				
General government				
Township board	15,000	15,000	12,793	(2,207)
Manager	64,073	64,073	60,906	(3,167)
Clerk	72,828	76,328	74,169	(2,159)
Board of review	1,700	1,700	1,386	(314)
Treasurer	14,210	14,210	13,558	(652)
Assessor	16,750	16,750	15,854	(896)
Elections	4,200	4,200	3,027	(1,173)
Buildings and grounds	183,560	242,260	243,947	1,687
Cemetery	43,600	47,800	47,790	(10)
	<u>415,921</u>	<u>482,321</u>	<u>473,430</u>	<u>(8,891)</u>
Total general government				

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended February 28, 2007

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Public safety				
Police	\$ 489,665	\$ 501,965	\$ 504,064	\$ 2,099
Fire department	96,100	96,100	77,425	(18,675)
Building inspection department	7,060	7,060	6,460	(600)
Total public safety	<u>592,825</u>	<u>605,125</u>	<u>587,949</u>	<u>(17,176)</u>
Public works				
Department of public works	234,870	234,870	229,988	(4,882)
Sidewalks	6,000	6,000	1,433	(4,567)
Street lighting	70,400	70,400	81,335	10,935
Sanitary land fill	92,700	93,700	93,671	(29)
Total public works	<u>403,970</u>	<u>404,970</u>	<u>406,427</u>	<u>1,457</u>
Community and economic development				
Planning	2,600	2,600	563	(2,037)
Zoning	1,000	1,000	392	(608)
Total community and economic development	<u>3,600</u>	<u>3,600</u>	<u>955</u>	<u>(2,645)</u>
Recreation and culture				
Parks and recreation	123,685	123,685	109,668	(14,017)
Capital outlay	129,701	434,701	431,895	(2,806)
Debt service				
Principal retirement	57,544	57,544	60,487	2,943
Interest and fiscal charges	22,700	22,700	22,762	62
Total debt service	<u>80,244</u>	<u>80,244</u>	<u>83,249</u>	<u>3,005</u>
Transfers out	117,316	117,316	118,801	1,485
Total expenditures	<u>1,867,262</u>	<u>2,251,962</u>	<u>2,212,374</u>	<u>(39,588)</u>
Excess (deficiency) of revenues over expenditures	-	-	(39,518)	(39,518)
Fund balance - beginning of year	1,378,304	1,378,304	1,378,304	-
Fund balance - end of year	<u>\$ 1,378,304</u>	<u>\$ 1,378,304</u>	<u>\$ 1,338,786</u>	<u>\$ (39,518)</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
Year Ended February 28, 2007

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Other state grants	\$ 166,000	\$ 166,000	\$ 156,310	\$ (9,690)
Local contributions	61,000	61,000	60,613	(387)
Interest income	3,500	3,500	11,241	7,741
Other revenue	5,370	5,370	5,373	3
Total revenues	<u>235,870</u>	<u>235,870</u>	<u>233,537</u>	<u>(2,333)</u>
Expenditures				
Current				
Public works	149,620	149,620	104,291	(45,329)
Capital outlay	51,000	51,000	27,346	(23,654)
Transfers out	35,250	35,250	35,250	-
Total expenditures	<u>235,870</u>	<u>235,870</u>	<u>166,887</u>	<u>(68,983)</u>
Excess of revenues over expenditures	-	-	66,650	66,650
Fund balance - beginning of year	<u>208,770</u>	<u>208,770</u>	<u>208,770</u>	-
Fund balance - end of year	<u>\$ 208,770</u>	<u>\$ 208,770</u>	<u>\$ 275,420</u>	<u>\$ 66,650</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
Year Ended February 28, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues				
Other state grants	\$ 60,000	\$ 60,000	\$ 56,833	\$ (3,167)
Local contributions	61,000	61,000	61,195	195
Interest income	1,000	1,000	5,057	4,057
Transfers in	<u>107,605</u>	<u>107,605</u>	<u>107,605</u>	<u>-</u>
Total revenues	<u>229,605</u>	<u>229,605</u>	<u>230,690</u>	<u>1,085</u>
Expenditures				
Current				
Public works	178,605	178,605	186,357	7,752
Capital outlay	<u>51,000</u>	<u>51,000</u>	<u>17,487</u>	<u>(33,513)</u>
Total expenditures	<u>229,605</u>	<u>229,605</u>	<u>203,844</u>	<u>(25,761)</u>
Excess of revenues over expenditures	-	-	26,846	26,846
Fund balance - beginning of year	<u>31,896</u>	<u>31,896</u>	<u>31,896</u>	<u>-</u>
Fund balance - end of year	<u>\$ 31,896</u>	<u>\$ 31,896</u>	<u>\$ 58,742</u>	<u>\$ 26,846</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Senior Citizens Housing
Year Ended February 28, 2007

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Federal grants	\$ 262,000	\$ 262,000	\$ 260,026	\$ (1,974)
Interest income	6,000	6,000	8,047	2,047
Rental income	132,400	132,400	144,420	12,020
Other revenue	1,800	1,800	49	(1,751)
Transfers in	90,107	90,107	-	(90,107)
 Total revenues	 <u>492,307</u>	 <u>492,307</u>	 <u>412,542</u>	 <u>(79,765)</u>
Expenditures				
Current				
Health and welfare	300,857	300,857	319,858	19,001
Capital outlay	20,000	20,000	-	(20,000)
Transfers out	171,450	171,450	171,250	(200)
 Total expenditures	 <u>492,307</u>	 <u>492,307</u>	 <u>491,108</u>	 <u>(1,199)</u>
 Excess (deficiency) of revenues over expenditures	 -	 -	 (78,566)	 (78,566)
 Fund balance - beginning of year	 <u>200,893</u>	 <u>200,893</u>	 <u>200,893</u>	 <u>-</u>
 Fund balance - end of year	 <u>\$ 200,893</u>	 <u>\$ 200,893</u>	 <u>\$ 122,327</u>	 <u>\$ (78,566)</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Airport Fund
Year Ended February 28, 2007

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Federal grants	\$ -	\$ -	\$ 430,771	\$ 430,771
Other state grants	-	-	141,468	141,468
Local contributions	-	-	17,711	17,711
Charges for services	7,000	26,000	26,733	733
Interest income	400	400	940	540
Rental income	14,000	14,000	11,593	(2,407)
Other revenue	-	-	24	24
Transfers in	44,961	44,961	44,961	-
Total revenues	<u>66,361</u>	<u>85,361</u>	<u>674,201</u>	<u>588,840</u>
Expenditures				
Current				
Public works	41,705	60,705	60,703	(2)
Capital outlay	17,321	17,321	589,999	572,678
Debt service				
Principal retirement	5,975	5,975	20,520	14,545
Interest and fiscal charges	1,360	1,360	2,641	1,281
Total expenditures	<u>66,361</u>	<u>85,361</u>	<u>673,863</u>	<u>588,502</u>
Excess of revenues over expenditures	-	-	338	338
Fund balance - beginning of year	<u>7,739</u>	<u>7,739</u>	<u>7,739</u>	<u>-</u>
Fund balance - end of year	<u>\$ 7,739</u>	<u>\$ 7,739</u>	<u>\$ 8,077</u>	<u>\$ 338</u>

City of Sandusky
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
February 28, 2007

	<u>Permanent Fund</u>
	<u>Cemetery</u>
Assets	
Cash and cash equivalents	\$ 72,178
Fund balances	
Reserved for:	
Perpetual care	\$ 61,446
Undesignated	<u>10,732</u>
Total fund balances	<u>\$ 72,178</u>

City of Sandusky
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended February 28, 2007

	Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
	1980 G.O. Senior Citizens Housing Project	Cemetery	
Revenues			
Interest income	\$ -	\$ 3,280	\$ 3,280
Expenditures			
Debt service			
Principal retirement	125,000	-	125,000
Interest and fiscal charges	46,250	-	46,250
	171,250	-	171,250
Total expenditures			
	(171,250)	3,280	(167,970)
Other financing sources			
Transfers in	171,250	1,485	172,735
	-	4,765	4,765
Net change in fund balance			
	-	67,413	67,413
Fund balance - beginning of year			
	\$ -	\$ 72,178	\$ 72,178
Fund balance - end of year			

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2007

<u>Description</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount of Annual Maturity</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Governmental Activities						
1980 General Obligation Senior Citizens Housing Project Bonds	9.25%	11/1/07	\$ 125,000	\$ 17,344	\$ 17,344	\$ 159,688
	9.25%	11/1/08	125,000	11,562	11,562	148,124
Amount of issue - \$2,050,000	9.25%	11/1/09	125,000	5,781	5,781	136,562
			<u>\$ 375,000</u>	<u>\$ 34,687</u>	<u>\$ 34,687</u>	<u>\$ 444,374</u>
1999 Installment Loan - Runway Rehabilitation Project	4.50%	7/14/07	\$ 4,430	\$ 625	\$ -	\$ 5,055
	4.50%	7/14/08	4,629	426	-	5,055
Amount of issue - \$40,000	4.50%	7/14/09	4,839	218	-	5,057
			<u>\$ 13,898</u>	<u>\$ 1,269</u>	<u>\$ -</u>	<u>\$ 15,167</u>
2001 Installment Loan - Runway Rehabilitation Project	4.60%	6/8/07	\$ 1,816	\$ 457	\$ -	\$ 2,273
	4.60%	6/8/08	1,898	375	-	2,273
Amount of issue - \$17,898	4.60%	6/8/09	1,986	287	-	2,273
	4.60%	6/8/10	2,078	195	-	2,273
	4.60%	6/8/11	2,165	100	-	2,265
			<u>\$ 9,943</u>	<u>\$ 1,414</u>	<u>\$ -</u>	<u>\$ 11,357</u>
2003 Installment Loan - Vacant Land	4.55%	3/4/07	\$ 12,330	\$ 8,698	\$ -	\$ 21,028
Amount of issue - \$225,000	4.55%	3/4/08	12,869	8,159	-	21,028
	4.55%	3/4/09	13,477	7,551	-	21,028
	4.55%	3/4/10	14,090	6,938	-	21,028
	4.55%	3/4/11	14,731	6,297	-	21,028
	4.55%	3/4/12	15,386	5,642	-	21,028
	4.55%	3/4/13	16,101	4,927	-	21,028
	4.55%	3/4/14	16,834	4,194	-	21,028
	4.55%	3/4/15	17,600	3,428	-	21,028
	4.55%	3/4/16	18,394	2,634	-	21,028
	4.55%	3/4/17	19,238	1,790	-	21,028
	4.55%	3/4/18	20,113	915	-	21,028
			<u>\$ 191,163</u>	<u>\$ 61,173</u>	<u>\$ -</u>	<u>\$ 252,336</u>
2003 Installment Loan - John Deere Tractor						
Amount of issue - \$72,855	4.33%	3/20/07	<u>\$ 15,175</u>	<u>\$ 658</u>	<u>\$ -</u>	<u>\$ 15,833</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2007

<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>
2004 Michigan Economic Dev. Corporation	5.00%	5/1/07	\$ 7,794	\$ 3,106	\$ -	\$ 10,900
Amount of issue - \$384,152	5.00%	8/1/07	7,891	3,008	-	10,899
	5.00%	11/1/07	7,990	2,910	-	10,900
	5.00%	2/1/08	8,090	2,810	-	10,900
	5.00%	5/1/08	8,191	2,709	-	10,900
	5.00%	8/1/08	8,293	2,606	-	10,899
	5.00%	11/1/08	8,397	2,503	-	10,900
	5.00%	2/1/09	8,502	2,398	-	10,900
	5.00%	5/1/09	8,608	2,292	-	10,900
	5.00%	8/1/09	8,716	2,184	-	10,900
	5.00%	11/1/09	8,825	2,075	-	10,900
	5.00%	2/1/10	8,935	1,965	-	10,900
	5.00%	5/1/10	9,047	1,853	-	10,900
	5.00%	8/1/10	9,160	1,740	-	10,900
	5.00%	11/1/10	9,274	1,624	-	10,898
	5.00%	2/1/11	9,390	1,510	-	10,900
	5.00%	5/1/11	9,508	1,392	-	10,900
	5.00%	8/1/11	9,626	1,273	-	10,899
	5.00%	11/1/11	9,747	1,153	-	10,900
	5.00%	2/1/12	9,869	1,031	-	10,900
	5.00%	5/1/12	9,992	908	-	10,900
	5.00%	8/1/12	10,117	783	-	10,900
	5.00%	11/1/12	10,243	656	-	10,899
	5.00%	2/1/13	10,371	528	-	10,899
	5.00%	5/1/13	10,501	399	-	10,900
	5.00%	8/1/13	10,632	267	-	10,899
	5.00%	11/1/13	10,765	135	-	10,900
			<u>\$ 248,474</u>	<u>\$ 45,818</u>	<u>\$ -</u>	<u>\$ 294,292</u>
2006 Installment Loan - Vacant Land	4.69%	6/30/07	\$ 14,230	\$ 14,070	\$ -	\$ 28,300
Amount of issue - \$300,000	4.69%	6/30/08	14,898	13,402	-	28,300
	4.69%	6/30/09	15,596	12,704	-	28,300
	4.69%	6/30/10	16,328	11,972	-	28,300
	4.69%	6/30/11	17,094	11,206	-	28,300
	4.69%	6/30/12	17,895	10,405	-	28,300
	4.69%	6/30/13	18,735	9,565	-	28,300
	4.69%	6/30/14	19,613	8,687	-	28,300
	4.69%	6/30/15	20,533	7,767	-	28,300
	4.69%	6/30/16	21,496	6,804	-	28,300
	4.69%	6/30/17	22,504	5,796	-	28,300
	4.69%	6/30/18	23,560	4,740	-	28,300
	4.69%	6/30/19	24,665	3,635	-	28,300
	4.69%	6/30/20	25,821	2,479	-	28,300
	4.69%	6/30/21	27,032	1,268	-	28,300
			<u>\$ 300,000</u>	<u>\$ 124,500</u>	<u>\$ -</u>	<u>\$ 424,500</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2007

<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>
Business-type Activities						
Water Supply System Revenue	5.15%	11/1/07	\$ 35,000	\$ 12,181	\$ 13,083	\$ 60,264
Bonds, Series 2000	5.20%	11/1/08	35,000	11,271	12,181	58,452
Amount of issue - \$650,000	5.25%	11/1/09	40,000	10,221	11,271	61,492
	5.30%	11/1/10	40,000	9,161	10,221	59,382
	5.40%	11/1/11	40,000	8,081	9,161	57,242
	5.50%	11/1/12	45,000	6,844	8,081	59,925
	5.60%	11/1/13	45,000	5,584	6,844	57,428
	5.65%	11/1/14	45,000	4,312	5,584	54,896
	5.70%	11/1/15	50,000	2,888	4,312	57,200
	5.75%	11/1/16	50,000	1,450	2,888	54,338
	5.80%	11/1/17	50,000	-	1,450	51,450
			\$ 475,000	\$ 71,993	\$ 85,076	\$ 632,069
Water Supply System Revenue	4.50%	11/1/07	\$ 25,000	\$ 17,843	\$ 17,843	\$ 60,686
Bonds, Series 2001	4.50%	11/1/08	30,000	17,280	17,280	64,560
Amount of issue - \$750,000	4.50%	11/1/09	30,000	16,605	16,605	63,210
	4.50%	11/1/10	30,000	15,930	15,930	61,860
	4.60%	11/1/11	35,000	15,255	15,255	65,510
	4.70%	11/1/12	35,000	14,450	14,450	63,900
	4.80%	11/1/13	40,000	13,628	13,628	67,256
	4.90%	11/1/14	40,000	12,668	12,668	65,336
	5.00%	11/1/15	45,000	11,688	11,688	68,376
	5.10%	11/1/16	50,000	10,562	10,562	71,124
	5.20%	11/1/17	50,000	9,287	9,287	68,574
	5.25%	11/1/18	75,000	7,988	7,988	90,976
	5.30%	11/1/19	75,000	6,019	6,019	87,038
	5.35%	11/1/20	75,000	4,031	4,031	83,062
	5.40%	11/1/21	75,000	2,025	2,025	79,050
			\$ 710,000	\$ 175,259	\$ 175,259	\$ 1,060,518

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2007

<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	4.25%	9/1/2007	\$ 37,000	\$ 77,648	\$ 77,648	\$ 192,296
Bonds Series 2005 A	4.25%	9/1/2008	39,000	76,861	76,861	192,722
Amount of issue - \$3,690,000	4.25%	9/1/2009	40,000	76,033	76,033	192,066
	4.25%	9/1/2010	42,000	75,183	75,183	192,366
	4.25%	9/1/2011	44,000	74,290	74,290	192,580
	4.25%	9/1/2012	46,000	73,355	73,355	192,710
	4.25%	9/1/2013	48,000	72,378	72,378	192,756
	4.25%	9/1/2014	50,000	71,358	71,358	192,716
	4.25%	9/1/2015	52,000	70,295	70,295	192,590
	4.25%	9/1/2016	55,000	69,190	69,190	193,380
	4.25%	9/1/2017	57,000	68,021	68,021	193,042
	4.25%	9/1/2018	59,000	66,810	66,810	192,620
	4.25%	9/1/2019	62,000	65,556	65,556	193,112
	4.25%	9/1/2020	65,000	64,239	64,239	193,478
	4.25%	9/1/2021	68,000	62,858	62,858	193,716
	4.25%	9/1/2022	71,000	61,413	61,413	193,826
	4.25%	9/1/2023	74,000	59,904	59,904	193,808
	4.25%	9/1/2024	77,000	58,331	58,331	193,662
	4.25%	9/1/2025	80,000	56,695	56,695	193,390
	4.25%	9/1/2026	84,000	54,995	54,995	193,990
	4.25%	9/1/2027	87,000	53,210	53,210	193,420
	4.25%	9/1/2028	91,000	51,361	51,361	193,722
	4.25%	9/1/2029	95,000	49,428	49,428	193,856
	4.25%	9/1/2030	99,000	47,409	47,409	193,818
	4.25%	9/1/2031	104,000	45,305	45,305	194,610
	4.25%	9/1/2032	108,000	43,095	43,095	194,190
	4.25%	9/1/2033	113,000	40,800	40,800	194,600
	4.25%	9/1/2034	118,000	38,399	38,399	194,798
	4.25%	9/1/2035	123,000	35,891	35,891	194,782
	4.25%	9/1/2036	128,000	33,278	33,278	194,556
	4.25%	9/1/2037	134,000	30,558	30,558	195,116
	4.25%	9/1/2038	140,000	27,710	27,710	195,420
	4.25%	9/1/2039	146,000	24,735	24,735	195,470
	4.25%	9/1/2040	152,000	21,633	21,633	195,266
	4.25%	9/1/2041	159,000	18,403	18,403	195,806
	4.25%	9/1/2042	166,000	15,024	15,024	196,048
	4.25%	9/1/2043	173,000	11,496	11,496	195,992
	4.25%	9/1/2044	181,000	7,820	7,820	196,640
	4.25%	9/1/2045	187,000	3,974	3,974	194,948
			<u>\$ 3,654,000</u>	<u>\$ 1,954,942</u>	<u>\$ 1,954,942</u>	<u>\$ 7,563,884</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2007

<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	4.25%	9/1/2007	\$ 18,000	\$ 34,701	\$ 34,701	\$ 87,402
Bonds Series 2005 B	4.25%	9/1/2008	18,000	34,319	34,319	86,638
Amount of issue - \$1,650,000	4.25%	9/1/2009	19,000	33,936	33,936	86,872
	4.25%	9/1/2010	20,000	33,533	33,533	87,066
	4.25%	9/1/2011	21,000	33,108	33,108	87,216
	4.25%	9/1/2012	22,000	32,661	32,661	87,322
	4.25%	9/1/2013	22,000	32,194	32,194	86,388
	4.25%	9/1/2014	23,000	31,726	31,726	86,452
	4.25%	9/1/2015	24,000	31,238	31,238	86,476
	4.25%	9/1/2016	25,000	30,728	30,728	86,456
	4.25%	9/1/2017	26,000	30,196	30,196	86,392
	4.25%	9/1/2018	27,000	29,644	29,644	86,288
	4.25%	9/1/2019	28,000	29,070	29,070	86,140
	4.25%	9/1/2020	30,000	28,475	28,475	86,950
	4.25%	9/1/2021	31,000	27,838	27,838	86,676
	4.25%	9/1/2022	32,000	27,179	27,179	86,358
	4.25%	9/1/2023	33,000	26,499	26,499	85,998
	4.25%	9/1/2024	35,000	25,798	25,798	86,596
	4.25%	9/1/2025	36,000	25,054	25,054	86,108
	4.25%	9/1/2026	38,000	24,289	24,289	86,578
	4.25%	9/1/2027	39,000	23,481	23,481	85,962
	4.25%	9/1/2028	41,000	22,653	22,653	86,306
	4.25%	9/1/2029	43,000	21,781	21,781	86,562
	4.25%	9/1/2030	44,000	20,868	20,868	85,736
	4.25%	9/1/2031	46,000	19,933	19,933	85,866
	4.25%	9/1/2032	48,000	18,955	18,955	85,910
	4.25%	9/1/2033	50,000	17,935	17,935	85,870
	4.25%	9/1/2034	52,000	16,873	16,873	85,746
	4.25%	9/1/2035	54,000	15,768	15,768	85,536
	4.25%	9/1/2036	57,000	14,620	14,620	86,240
	4.25%	9/1/2037	59,000	13,409	13,409	85,818
	4.25%	9/1/2038	61,000	12,155	12,155	85,310
	4.25%	9/1/2039	64,000	10,859	10,859	85,718
	4.25%	9/1/2040	66,000	9,499	9,499	84,998
	4.25%	9/1/2041	69,000	8,096	8,096	85,192
	4.25%	9/1/2042	72,000	6,630	6,630	85,260
	4.25%	9/1/2043	75,000	5,100	5,100	85,200
	4.25%	9/1/2044	78,000	3,506	3,506	85,012
	4.25%	9/1/2045	87,000	1,849	1,849	90,698
			<u>\$ 1,633,000</u>	<u>\$ 866,156</u>	<u>\$ 866,156</u>	<u>\$ 3,365,312</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2007

<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%	11/1/2007	\$ 20,000	\$ 28,178	\$ 28,178	\$ 76,356
Revenue Bonds Series 2005 A	4.25%	11/1/2008	20,000	27,753	27,753	75,506
Amount of issue - \$1,346,000	4.25%	11/1/2009	20,000	27,328	27,328	74,656
	4.25%	11/1/2010	20,000	26,903	26,903	73,806
	4.25%	11/1/2011	20,000	26,478	26,478	72,956
	4.25%	11/1/2012	20,000	26,053	26,053	72,106
	4.25%	11/1/2013	20,000	25,628	25,628	71,256
	4.25%	11/1/2014	20,000	25,203	25,203	70,406
	4.25%	11/1/2015	20,000	24,778	24,778	69,556
	4.25%	11/1/2016	25,000	24,353	24,353	73,706
	4.25%	11/1/2017	25,000	23,821	23,821	72,642
	4.25%	11/1/2018	30,000	23,290	23,290	76,580
	4.25%	11/1/2019	30,000	22,653	22,653	75,306
	4.25%	11/1/2020	30,000	22,015	22,015	74,030
	4.25%	11/1/2021	30,000	21,378	21,378	72,756
	4.25%	11/1/2022	30,000	20,740	20,740	71,480
	4.25%	11/1/2023	30,000	20,103	20,103	70,206
	4.25%	11/1/2024	30,000	19,465	19,465	68,930
	4.25%	11/1/2025	30,000	18,828	18,828	67,656
	4.25%	11/1/2026	30,000	18,190	18,190	66,380
	4.25%	11/1/2027	30,000	17,553	17,553	65,106
	4.25%	11/1/2028	30,000	16,915	16,915	63,830
	4.25%	11/1/2029	31,000	16,278	16,278	63,556
	4.25%	11/1/2030	32,000	15,619	15,619	63,238
	4.25%	11/1/2031	34,000	14,939	14,939	63,878
	4.25%	11/1/2032	35,000	14,216	14,216	63,432
	4.25%	11/1/2033	37,000	13,473	13,473	63,946
	4.25%	11/1/2034	39,000	12,686	12,686	64,372
	4.25%	11/1/2035	40,000	11,858	11,858	63,716
	4.25%	11/1/2036	42,000	11,008	11,008	64,016
	4.25%	11/1/2037	44,000	10,115	10,115	64,230
	4.25%	11/1/2038	46,000	9,180	9,180	64,360
	4.25%	11/1/2039	48,000	8,203	8,203	64,406
	4.25%	11/1/2040	50,000	7,183	7,183	64,366
	4.25%	11/1/2041	52,000	6,120	6,120	64,240
	4.25%	11/1/2042	55,000	5,015	5,015	65,030
	4.25%	11/1/2043	57,000	3,846	3,846	64,692
	4.25%	11/1/2044	60,000	2,635	2,635	65,270
	4.25%	11/1/2045	64,000	1,360	1,360	66,720
			<u>\$ 1,326,000</u>	<u>\$ 671,340</u>	<u>\$ 671,340</u>	<u>\$ 2,668,680</u>

City of Sandusky
Other Supplemental Information
Schedule of Bonded Indebtedness
February 28, 2007

<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%	11/1/2007	\$ 750	\$ 1,132	\$ 1,132	\$ 3,014
Revenue Bonds Series 2005 B	4.25%	11/1/2008	750	1,116	1,116	2,982
Amount of issue - \$54,000	4.25%	11/1/2009	750	1,100	1,100	2,950
	4.25%	11/1/2010	750	1,084	1,084	2,918
	4.25%	11/1/2011	1,000	1,068	1,068	3,136
	4.25%	11/1/2012	1,100	1,047	1,047	3,194
	4.25%	11/1/2013	1,100	1,023	1,023	3,146
	4.25%	11/1/2014	1,100	1,000	1,000	3,100
	4.25%	11/1/2015	1,100	976	976	3,052
	4.25%	11/1/2016	1,200	953	953	3,106
	4.25%	11/1/2017	1,200	928	928	3,056
	4.25%	11/1/2018	1,200	902	902	3,004
	4.25%	11/1/2019	1,200	877	877	2,954
	4.25%	11/1/2020	1,200	851	851	2,902
	4.25%	11/1/2021	1,200	826	826	2,852
	4.25%	11/1/2022	1,350	800	800	2,950
	4.25%	11/1/2023	1,350	771	771	2,892
	4.25%	11/1/2024	1,350	743	743	2,836
	4.25%	11/1/2025	1,350	714	714	2,778
	4.25%	11/1/2026	1,350	685	685	2,720
	4.25%	11/1/2027	1,350	657	657	2,664
	4.25%	11/1/2028	1,350	628	628	2,606
	4.25%	11/1/2029	1,350	599	599	2,548
	4.25%	11/1/2030	1,350	571	571	2,492
	4.25%	11/1/2031	1,350	542	542	2,434
	4.25%	11/1/2032	1,350	513	513	2,376
	4.25%	11/1/2033	1,350	485	485	2,320
	4.25%	11/1/2034	1,350	456	456	2,262
	4.25%	11/1/2035	1,400	427	427	2,254
	4.25%	11/1/2036	1,500	397	397	2,294
	4.25%	11/1/2037	1,550	366	366	2,282
	4.25%	11/1/2038	1,650	333	333	2,316
	4.25%	11/1/2039	1,700	298	298	2,296
	4.25%	11/1/2040	1,800	261	261	2,322
	4.25%	11/1/2041	1,900	223	223	2,346
	4.25%	11/1/2042	2,000	183	183	2,366
	4.25%	11/1/2043	2,100	140	140	2,380
	4.25%	11/1/2044	2,200	96	96	2,392
	4.25%	11/1/2045	2,300	49	49	2,398
			\$ 53,250	\$ 25,820	\$ 25,820	\$ 104,890

City of Sandusky
Sanilac County, Michigan
Single Audit Report
February 28, 2007

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Report on Schedule of Federal Awards

City Council
City of Sandusky
Sandusky, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky for the year ended February 28, 2007, and have issued our report thereon dated June 13, 2007. These financial statements are the responsibility of City of Sandusky's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

Our audit was made for the purpose of forming opinions on the basic financial statements of City of Sandusky taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
June 13, 2007

City of Sandusky
Schedule of Expenditures of Federal Awards
For the Year Ended February 28, 2007

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Water Supply System Junior Lien Revenue Bond, Series 2005A	10.760	\$ 378,640
Water Supply System Junior Lien Revenue Bond, Series 2005B		51,000
Sewage Disposal System Revenue Bond, Series 2005A		3,470,000
Sewage Disposal System Revenue Bond, Series 2005B		122,276
Waste System Grant		<u>1,259,185</u>
		<u>5,281,101</u>
U.S. Department of Housing and Urban Development		
Lower Income Housing Assistance Program	14.856	<u>251,588</u>
Passed through Michigan State Housing Development Association		
City of Sandusky Rental Rehab Program	14.228	<u>8,438</u>
U.S. Department of Transportation		
Passed through Michigan Department of Transportation		
Airport Improvement Program B-26-0084-0304	20.106	571
Airport Improvement Program B-26-0084-0404		<u>430,200</u>
		<u>430,771</u>
 Total expenditures of Federal Awards		 <u>\$ 5,971,898</u>

City of Sandusky
Notes to the Schedule of Expenditures of Federal Awards
February 28, 2007

1. The Schedule of Expenditures of Federal Awards includes expenditures that have been incurred for the related projects. Requests for additional draw down of the Water and Sewer bonds were made after year end.
2. All transactions occurring under the Airport Improvement Program grants were handled by the Michigan Department of Transportation. The City only receives correspondence at their fiscal year end to record the activity for the year. Although the expenditures are over the thresholds for a major program, it is not considered a major program for the City of Sandusky as the approval process for invoices, and invoice payment is handled by the Michigan Department of Transportation for these grants.
3. The federal expenditures reported on the Schedule of Expenditures of Federal Awards for the Water Supply System Junior Lien Revenue Bond, Series 2005A of \$378,640 and the Sewage Disposal System Revenue Bond, Series 2005B of \$122,276 do not reconcile to the additions in long term debt in the annual financial statements due to the timing of receiving payments from Rural Development. Expenditures in fiscal year 2006 were not reimbursed until fiscal year 2007.

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

City Council
City of Sandusky
Sandusky, Michigan

We have audited the 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 13, 2007. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Sandusky's internal control over financial reporting as a basis for designing our audit procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Sandusky's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be significant deficiency in internal control over financial reporting. The finding is noted in the schedule as 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to the City's management in a separate letter dated June 13, 2007.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
June 13, 2007

Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

City Council
City of Sandusky
Sandusky, Michigan

Compliance

We have audited the compliance of City of Sandusky with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 28, 2007. City of Sandusky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Sandusky's management. Our responsibility is to express an opinion on the City of Sandusky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sandusky's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Sandusky's compliance with those requirements.

In our opinion, the City of Sandusky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended February 28, 2007.

Internal Control over Compliance

The management of the City of Sandusky is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sandusky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
June 13, 2007

City of Sandusky
Schedule of Findings and Questioned Costs
February 28, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant Deficiency(s) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.760	Water Supply System Junior Lien Revenue Bonds, Sewage Disposal System Revenue Bonds & Waste System Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

City of Sandusky
Schedule of Findings and Questioned Costs
February 28, 2007
(continued)

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 2007-1 – Fixed Asset Listing

Criteria or specific requirement: Fixed assets must be reported in the government-wide statements.

Condition: For the last two years there have been prior period adjustments to the financial statements as the result of management realizing items were not included previously in the listing.

Cause: The fixed asset listing is not updated as items are purchased.

Effect: The prior year financial statement government-wide assets were understated by the excluded items.

Recommendation: We recommend that the fixed asset listing be updated as items are purchased. As an alternative, a log may be maintained of items purchased updated throughout the year.

Management's Response: The City will develop and maintain a log of fixed assets purchased throughout the year to add to the fixed asset listing at year end.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for the Federal Awards for the year ended February 28, 2007.

City of Sandusky
Summary Schedule of Prior Audit Findings
February 28, 2007

There were no audit findings for the year ended February 28, 2006.



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June 13, 2007

Members of the City Council
City of Sandusky
Sandusky, Michigan

In planning and performing our audit of the financial statements of the City of Sandusky as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Sandusky's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

FIXED ASSET LISTING

During the last two years, there have been prior period adjustments to the financial statements as the result of management realizing items were not included on the listing. We recommend that the fixed asset listing be updated or a log be maintained as items are purchased. This will help ensure all assets are recorded at year end and the appropriate amounts of depreciation expense have been recorded.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We noted no internal control related matters that constitute a material weakness.

We have also noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

AIRPORT PROJECTS

An audit entry was required for the expenditures paid for by MDOT for the airport renovation project, because they were not recorded in the City's general ledger. Last year we recommended that monthly correspondence be obtained from MDOT showing all revenues and expenditures received and paid for on behalf of the City. This would allow the City to maintain adequate records of the airport and have proper supporting documentation to produce an audit trail. We understand that the City has had difficulty obtaining this information. Therefore, we recommend that at a minimum this information be obtained at the end of each project or year end, so that the revenues and expenditures can be recorded at year end.

EXPENSE APPROVAL

Each month the Council receives a list of claims to be paid for approval. In addition the Council receives a list of payments that were made that do not require pre approval. During our review of payments for the test month of May, we noted that the board did not receive a complete list of payments made that did not require pre approval. The payments excluded were for conferences. MCL 87.7 requires that all claims be provided to the Council. We recommend that a process be developed to ascertain that all payments made, including claims for approval, pre approved claims and electronic transactions, are presented to the Council. This will help to prevent surprises and comply with MCL 87.7.

JOURNAL ENTRIES

During our journal entry testing, we noted that no one reviews the journal entries completed by the finance director. We recommend that the city manager or a board member review the journal entries on a routine basis. In addition, the individual reviewing needs to sign off on the journal entry list showing their approval. This will help prevent and catch mistakes in a timely a manner and prevent any unauthorized transactions from occurring.

PASSWORD PROTECTION

We noted that the computer used for receipts (front computer) is logged on in the morning by any city administration employee and that during the course of the day any employee can use the computer. While the finance director's computer is password protected and no one else has access, other computers can be accessed by other users. We recommend implementing a policy requiring separate log on procedures for the front computer and no sharing of passwords between employees.

CONTINGENCY PLANNING AND BACK-UPS

We noted there are no formal back up procedures or contingency procedures in place. In addition, in the finance director's absence, there is no access to the general ledger by other employees. We recommend that the city implement a policy regarding regular back ups of the computer system and procedures to cross-train employees in using the general ledger software. This will allow the city to function with the absence of the finance director for an extended period of time.

This communication is intended solely for the information and use of management, City Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants

A handwritten signature in cursive script that reads "Mari McKenzie".

Mari McKenzie