

City of Sault Ste. Marie, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2011

CITY OF SAULT STE. MARIE, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

Through June 30, 2011

MAYOR	ANTHONY BOSBOUS
MAYOR PRO TEM	WILLIAM MUNSELL
COMMISSIONER	RAY BAUER
COMMISSIONER	MARILYN BURTON
COMMISSIONER	DON GERRIE
COMMISSIONER	WILLIAM LYNN
COMMISSIONER	JEFF STEFANSKI

CURRENT MEMBERS OF THE CITY COMMISSION

MAYOR	ANTHONY BOSBOUS
MAYOR PRO TEM	WILLIAM LYNN
COMMISSIONER	RAY BAUER
COMMISSIONER	MARILYN BURTON
COMMISSIONER	DON GERRIE
COMMISSIONER	PATRICIA SHIMMENS
COMMISSIONER	JEFF STEFANSKI

APPOINTED OFFICERS

CITY MANAGER	SPENCER NEBEL
ACTING FINANCE DIRECTOR	KRISTIN COLLINS
CITY CLERK	ROBIN TROYER

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	17
Reconciliation of Governmental Funds:	
Statement of Revenues, Expenditures, and Changes in in Fund Balances to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Net Assets	20
Statement of Cash Flows	21
Reconciliation of Proprietary Funds:	
Statement of Revenues, Expenses, and Changes in Net Assets to the Statement of Activities.....	22
Fiduciary Funds:	
Statement of Fiduciary Net Assets	23
Statement of Changes in Fiduciary Net Assets	24
COMPONENT UNITS:	
Combining Balance Sheet	25
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance/Net Assets	26
NOTES TO FINANCIAL STATEMENTS	27

TABLE OF CONTENTS (Continued)

	<u>Page</u>
REQUIRED SUPPLEMENTARY INFORMATION:	
Major Funds:	
Budgetary Comparison Schedule – General Fund	54
Budgetary Comparison Schedule – Major Streets Fund	56
Budgetary Comparison Schedule – Local Streets Fund	57
Employment Retirement and Benefit Systems:	
Schedule of Funding Progress	58
OTHER SUPPLEMENTARY INFORMATION:	
Combining Balance Sheet – Nonmajor Governmental Funds	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	62
Combining Statement of Net Assets – Internal Service Funds	65
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Internal Service Funds	66
Combining Statement of Cash Flows – Internal Service Funds	67
Combining Statement of Net Assets – Nonmajor Enterprise Funds	68
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Nonmajor Enterprise Funds	69
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	70
REPORTS ON COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71
Report on Compliance with Requirements that could have a Direct and Material effect on a Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	73
Schedule of Expenditures of Federal Awards	75
Notes to Schedule of Expenditures of Federal Awards	77
Schedule of Findings and Questioned Costs	78
Summary Schedule of Prior Audit Findings	81
ADDITIONAL INFORMATION:	
Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12	82



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan 49783

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sault Ste. Marie, Michigan, as of and for the year ended June 30, 2011, 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 of Sault Ste. Marie'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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sault Ste. Marie, Michigan, as of June 30, 2011, 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 December 8, 2011, on our consideration of the City of Sault Ste. Marie, Michigan's internal control over financial reporting and 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress as listed 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 the City of Sault Ste. Marie, Michigan's basic financial statements. The accompanying supplementary information such as the combining nonmajor fund financial statements identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information have 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 basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 8, 2011

Management's Discussion and Analysis

As management of the City of Sault Ste. Marie, Michigan (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

The City's total net assets at June 30, 2011 were \$79,996,431 consisting of \$56,802,199 in net assets of our governmental activities and \$23,194,232 in net assets of our business-type activities.

During the fiscal year we completed 1.29 miles of street reconstruction and resurfacing with associated storm sewers, sidewalks, traffic signals and bike paths with a combined value of approximately \$1,095,245. With the ongoing CSO project, approximately \$2,855,664 was under construction at June 30th.

The City issued no new debt during the fiscal year, but did continue to make draw requests on the SRF CSO C bond issue which was originally funded in February 2010. Draws are made in connection with construction progress. The City has drawn \$2,895,991 of the \$5,189,000 available balance as of June 30th.

Capital Projects that were completed during the fiscal year include the following:

\$73,717 was spent on re-roofing the Waste Water Treatment Plant, funded by Sewer Equipment Replacement reserves.

A Columbarium for Cremains was installed at the Cemetery at a cost of \$16,437 to the General Fund.

The Parking Deck had joints caulked at a cost of \$15,950, fully funded by TIFA 1.

Significant progress was made on 15 other projects which were incomplete at June 30th. This includes City Hall which was occupied mid-June 2011, the Smartzone Breeder Building still in the design phase, the Ashmun Bay Wetland Mitigation project well-underway, and Rotary Park Improvements to name a few.

Capital Equipment purchased during the fiscal year is summarized as follows:

Assistance to Fire Fighters grant funds were used to purchase fitness equipment valued at \$39,469, mobile radios at \$6,075, and wireless headsets at a cost of \$27,497 for the Fire Department.

The Parking fund purchased 122 meters at a cost of \$14,672, as a part of the continued meter replacement program, and \$11,898 was used for parking lot improvements during the year.

The Stock & Equipment Fund purchased a 2010 Ford Expedition for \$26,531 to rent to the Police Department as a patrol unit, and a 2011 Ford Fusion for \$18,097 to rent to the police department as a detective unit. Depreciation Reserve funds were used to purchase a used bucket truck from Cloverland Electric for \$13,000.

During the fiscal year, the City completed \$5,366 in water related projects and \$4,587 in sewer related projects. With the ongoing CSO Project, \$8,660,703 was under construction at June 30.

In the IT fund, \$4,315 was used to purchase a new copier, \$25,986 was used to replace and purchase new hardware, and \$27,791 was used for software upgrades, including the new Core Technology for the Police Department.

After increasing 112% between fiscal year 2002 and 2005, the cost of health care has been contained through negotiation of caps on the cost of health care with the City's 7 bargaining units. Effective January, 2009, health care costs exceeded the caps which triggered the implementation of a Special Health Committee which is authorized to implement measures to keep the City costs at threshold levels. Committee membership includes representation from the 7 bargaining units, from non-union employees and department heads as well as the City Attorney and the City Manager. The Committee is authorized to act on insurance issues on behalf of the bargaining units, the City Commission and non-union employees to provide health care plans under the fixed threshold limits.

Since then, the Healthcare Committee has aided the City to implement self-funded insurance through Blue Cross Blue Shield, with a cafeteria style selection of coverage packages available at a range of costs. If costs of the covered employees' plan selection are over the City's threshold, the employee has contributed the difference through payroll deduction. For the fiscal year ending 2009-10, the first full year under BCBS's program, the City's share of claims expense was \$903,852, and employee's contributed \$32,241. The City's share of that cost dropped to \$734,205 for the year ending June 30, 2011, and the employee's contributions increased to \$46,782.

The City has been hurt by continual problems with three General Fund revenue components. Property tax growth has been slowing over the past three years, State Shared Revenue has continued to decline and low interest rates have drastically reduced unrestricted interest earnings.

Taxable values increased from \$291,091,476 in 2010 to \$294,802,882 in 2011, or just over \$3.7 million.

Taxable Values

2011	\$ 294,802,882
2010	\$ 291,091,476
2009	\$ 286,610,333
2008	\$ 279,644,638
2007	\$ 276,948,746

This is an average increase of 1.58% per year over five years. Many areas in Michigan continue to experience taxable value decreases.

Total millage increased from 21.5393 to 21.9584 between fiscal 2009-10 and 2010-11. Operating millage at 16.8139 and Library millage at 0.8000 remained unchanged. Solid Waste millage increased from 0.5332 to 0.6298, and Police/Fire Pension millage increased from 3.3922 to 3.7147.

2010-11 Revenue Sharing was budgeted at \$1,415,641 based on State Revenue Sharing estimates at budget time. Actual receipts were \$1,442,659, which is over budget \$27,018.

Revenue Sharing Comparisons

2010-11	\$ 1,442,659
2009-10	\$ 1,442,659
2008-09	\$ 1,622,059
2007-08	\$ 1,678,536
2006-07	\$ 1,678,536
2005-06	\$ 1,730,057
2004-05	\$ 1,749,523
2003-04	\$ 1,768,805
2002-03	\$ 1,968,064
2001-02	\$ 2,068,810
2000-01	\$ 2,121,096

Since 2000-01, the annual sales tax distribution has decreased nearly 32%. This reduction in revenue sharing over the past ten years has resulted in a cumulative loss to the City's General Fund revenue of over \$4 million, excluding inflationary adjustments. Recent changes were made to the State's rationale used in distributing the statutory portion of these payments in accordance with Governor Snyder's Economic Vitality Incentive Program, but these changes did not affect the City's revenue prior to June 30, 2011.

Interest income has steadily declined since the peak in 2006-07, and similar reductions have occurred in other funds. Despite our best efforts to invest at more attractive rates with our local banks, the City's operating funds are earning very little interest. Unfortunately, market conditions do not foresee a return to the kind of rates experienced in 2006-07.

General Fund Interest Comparison

2010-11	\$ 25,999
2009-10	\$ 38,085
2008-09	\$ 143,087
2007-08	\$ 293,097
2006-07	\$ 306,799
2005-06	\$ 207,010
2004-05	\$ 115,427
2003-04	\$ 70,263
2002-03	\$ 118,396
2001-02	\$ 143,218
2000-01	\$ 361,440

Because of increased debt service requirements and steadily declining consumption, water and sewer rates have continued to rise. Consumption has fallen to an all-time low level of 52,364,600 cubic feet. This represents a decline in annual consumption of over 6.8 million cubic feet, or roughly 2% per year since 2005. The nationwide trend toward water conservation and continued reduction in per capita consumption will drop to even lower levels in years to come.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets presents* information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works and recreation and culture. The business-type activities include the sewer and water activities.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Sault Ste. Marie Downtown Development Authority, EDC, TIFA III, LDFA and Library are legally separate component units for which the City is financially accountable.

The government-wide financial statements can be found on pages 14–15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains 24 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets Fund, Local Streets Fund, and Capital Projects 2 Fund each of which are considered to be major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and the major Special Revenue Funds.

The basic *governmental fund* financial statements can be found on pages 16-18 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses Enterprise Funds to account for its sewer and water operations. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the various City functions. The City of Sault Ste. Marie uses its Internal Service Funds to account for data processing, stock and equipment, and employee health insurance activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer departments and parking deck which are considered major enterprise funds of the City.

The basic proprietary fund financial statements can be found on 19-21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for governmental funds.

The basic fiduciary fund financial statements can be found on page 23-24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 27-53 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information including the combining statements referred to earlier in connection with nonmajor governmental funds which are presented immediately following the notes to the financial statements.

Combining fund statements and schedules can be found on pages 59-70 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$79,996,431 at the close of fiscal year 2011.

Approximately 58.0% of the City's net assets reflect its investment in net capital assets (e.g., land, buildings, water, and sewer systems, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets Restricted for Trust represent approximately 3.6% of total net assets. The remaining balance of unrestricted net assets \$30,580,953 or 38.4% may be used to meet the government's ongoing obligation to citizens and creditors.

**City of Sault Ste. Marie
Condensed Statement of Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current Assets	\$ 27,750,326	\$ 29,619,548	\$ 7,928,706	\$ 12,949,868	\$ 35,679,032	\$ 42,569,416
Capital Assets	47,612,815	49,632,114	53,102,757	46,704,495	100,715,572	96,336,609
Total Assets	75,363,141	79,251,662	61,031,463	59,654,363	136,394,604	138,906,025
Liabilities						
Current Liabilities	9,904,520	9,246,656	2,984,772	2,918,007	12,889,292	12,164,663
Noncurrent Liabilities	8,656,422	9,412,825	34,852,459	35,898,568	43,508,881	45,311,393
Total Liabilities	18,560,942	18,659,481	37,837,231	38,816,575	56,398,173	57,476,056
Net Assets						
Invested in Capital Assets, net of related debt	38,948,606	40,322,494	7,572,731	7,520,769	46,521,337	47,843,263
Restricted – for Trust	2,894,141	2,923,496	-	-	2,894,141	2,923,496
Unrestricted	14,959,452	17,346,191	15,621,501	13,317,019	30,580,953	30,663,210
Total Net Assets	\$ 56,802,199	\$ 60,592,181	\$ 23,194,232	\$ 20,837,788	\$ 79,996,431	\$ 81,429,969

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, for the government as a whole and for its separate governmental and business-type activities.

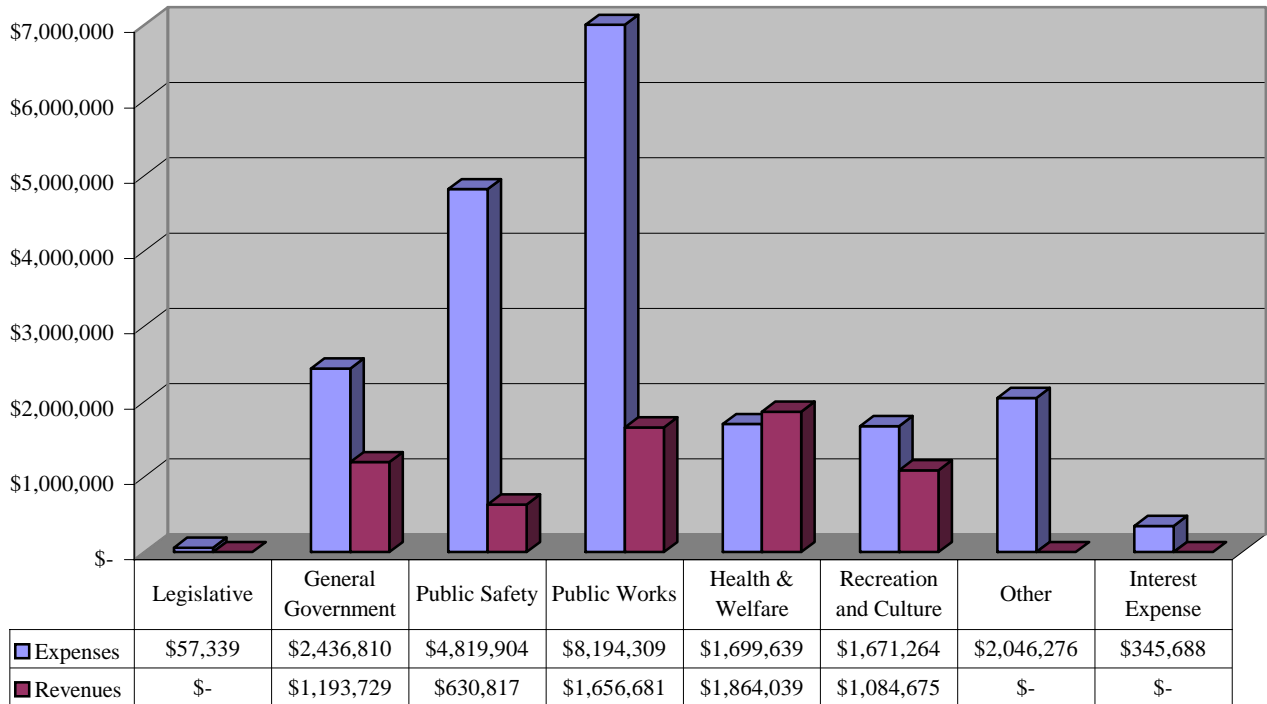
The City's net assets decreased \$1,433,538 during the current fiscal year.

**City of Sault Ste. Marie
Condensed Statement of Changes in Net Assets**

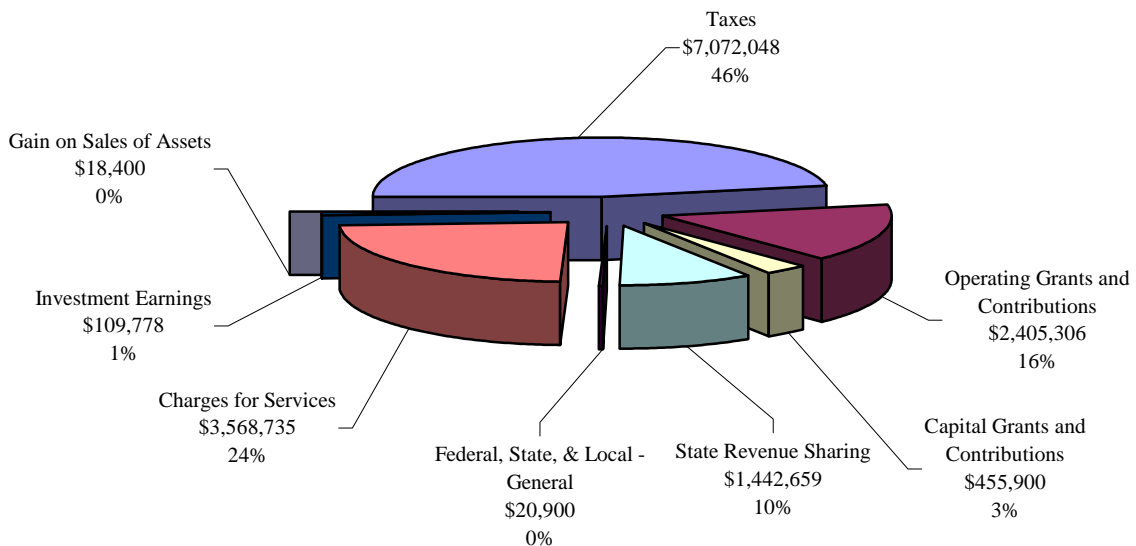
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Charges for Services	\$ 3,568,735	\$ 4,962,268	\$ 6,538,161	\$ 6,052,557	\$ 10,106,896	\$ 11,014,825
Operating Grants and Contributions	2,405,306	2,423,918	-	22,527	2,405,306	2,446,445
Capital Grants and Contributions	455,900	564,229	2,905,821	-	3,361,721	564,229
General revenue						
Property Taxes	7,072,048	6,969,328	-	-	7,072,048	6,969,328
State Revenue Sharing	1,442,659	1,442,659	-	-	1,442,659	1,442,659
Federal, State, & Local – General	20,900	20,900	-	-	20,900	20,900
Investment Earnings	109,778	197,505	33,204	34,341	142,982	231,846
Gain on Sale of Assets	18,400	872,230	-	-	18,400	872,230
Transfers	2,633,286	3,003,538	(2,251,603)	(2,580,878)	381,683	422,660
Total Revenues	<u>17,727,012</u>	<u>20,456,575</u>	<u>7,225,583</u>	<u>3,528,547</u>	<u>24,952,595</u>	<u>23,985,122</u>
Expenses						
Legislative	57,339	47,520	-	-	57,339	47,520
General Government	2,436,810	1,921,689	-	-	2,436,810	1,921,689
Public Safety	4,819,904	4,594,488	-	-	4,819,904	4,594,488
Public Works	8,194,309	5,267,923	-	-	8,194,309	5,267,923
Health and Welfare	1,699,639	1,945,781	-	-	1,699,639	1,945,781
Recreation and Culture	1,671,264	1,578,028	-	-	1,671,264	1,578,028
Other Expenses	2,046,276	1,682,487	-	-	2,046,276	1,682,487
Interest Expense	345,688	348,584	-	-	345,688	348,584
Water and Sewer	-	-	5,855,130	5,220,728	5,855,130	5,220,728
Parking Deck	-	-	513,930	452,642	513,930	452,642
Parking	-	-	200,373	204,890	200,373	204,890
Total Expenses	<u>21,271,229</u>	<u>17,386,500</u>	<u>6,569,433</u>	<u>5,878,260</u>	<u>27,840,662</u>	<u>23,264,760</u>
Changes in Net Assets	(3,544,217)	3,070,075	656,150	(2,349,713)	(2,888,067)	720,362
Net Assets – Beginning of Year	60,592,181	57,522,106	20,837,788	23,187,501	81,429,969	80,709,607
Prior Period Adjustment	(245,765)	-	1,700,294	-	1,454,529	-
Net Assets – End of Year	<u>\$ 56,802,199</u>	<u>\$ 60,592,181</u>	<u>\$ 23,194,232</u>	<u>\$ 20,837,788</u>	<u>\$ 79,996,431</u>	<u>\$ 81,429,969</u>

Governmental activities. Governmental activities decreased the City's net assets by \$3,789,982 accounting for substantially all of the decrease in the City's net assets for fiscal year 2011.

Expenses and Program Revenues - Governmental Activities

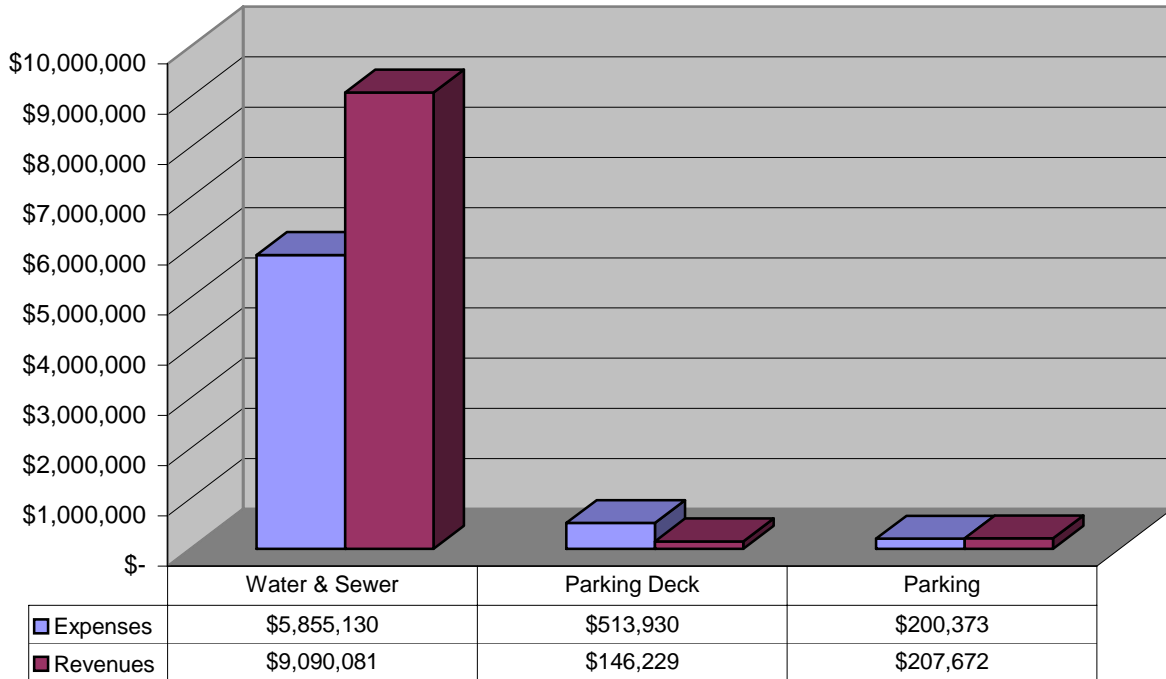


Revenues by Sources - Governmental Activities



Business-type activities. Business-type activities increased the City’s net assets by \$2,356,444.

Expenses and Program Revenues- Business-type Activities



Substantially all revenues for the business-type activities resulted from charges for services.

Financial Analysis of the Government’s Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City’s financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the City. General Fund fund balance increased by \$48,623 from \$2,660,421 to \$2,709,044 during 2011.

Proprietary funds. The City’s proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The City’s interest income in fiscal year 2011 decreased by 32% over the fiscal year 2010 total due to the lower interest rates.

Tax revenues and other revenues were at or exceeded expected budgetary levels. Many of the capital project related grants that are still in the General Fund fell short of budget, however this is not unusual for capital projects and there is an offsetting expense account that is under budget as well. Charges for services came in well over budget at 111%.

Capital Asset and Debt Administration

Capital assets. The City defines a capital asset as an asset whose cost exceeds \$10,000 and whose useful life is greater than two years. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

**City of Sault Ste. Marie
Capital Assets**
(net of depreciation, where applicable)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 2,407,739	\$ 207,049	\$ 2,614,788
Construction in progress	3,950,909	8,670,657	12,621,566
Buildings and improvements	5,548,277	13,014,479	18,562,756
Land improvements	3,274,922	-	3,274,922
Furniture and equipment	3,427,389	1,169,893	4,597,282
Infrastructure	29,003,579	-	29,003,579
Water and sewer	-	30,040,679	30,040,679
Total	<u>\$ 47,612,815</u>	<u>\$ 53,102,757</u>	<u>\$ 100,715,572</u>

Additional information on the City’s capital assets can be found in Note 4 pages 37-39 of this report.

Long-term debt. Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid from a Debt Service Fund, Enterprise Fund or Internal Service Fund. Debt is classified as long-term if the debt matures in a period greater than one year.

Additional information on the City’s long-term debt can be found in Note 6 on pages 41-46 of this report.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2012 General Fund Budget. In accordance with the adopted Guiding Financial Principles, the City addresses anticipated economic changes proactively such as continuing reductions in state shared revenue, small incremental changes in property taxes and further reductions in interest earnings when considering the impacts these funding reductions have on local government services.

The current state budget implements a change in methodology used in distributing Revenue Sharing based on recommended budget guidelines laid out in the Economic Vitality Incentive Program. Based on estimates at budget time, the City estimates Revenue Sharing to be reduced 11% below the level as fiscal 2010-11. This reduces the fiscal 2010-11 amount of \$1,442,659 down to \$1,262,700, a reduction of \$179,959. The City is making every effort to comply with State requirements in order to meet this budget.

With healthcare thresholds in place, the Special Health Committee is charged with implementing health care plans that keep the City's costs at threshold levels.

Efforts to address the structural deficits have helped stabilize the General Fund's fund balance.

The City is carefully evaluating each City vacancy before deciding whether or not to fill the opening. Several openings currently exist and more are planned in the 2011-12 fiscal year as a result of retirement incentives. An internal task force has been established to look at the organization's staffing levels and compare it with that of peer cities, and the Manager will report its findings to the City Commission.

As water consumption has continued to trend downward and expenses have continued to increase, the City has had to increase rates each year. New debt requirements with the start of the CSO-C project play a large part in the increase for the 2011-12 fiscal year of over 9% for the average household.

Request for Information

This financial report is designed to provide our citizen's, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Kristin Collins, Acting Finance Director at 225 E. Portage Avenue, Sault Ste. Marie, Michigan, 49783.

Basic Financial Statements

Statement of Net Assets
June 30, 2011

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Current Assets:				
Cash & Equivalents - Unrestricted	\$ 13,354,450	\$ 1,346,347	\$ 14,700,797	\$ 2,528,853
Cash & Equivalents - Restricted	1,036,396	5,934,635	6,971,031	-
Investments - Unrestricted	-	-	-	107,610
Investments - Restricted	2,629,816	-	2,629,816	-
Accounts Receivable	762,605	435,172	1,197,777	13,523
Internal Balances	33,789	(33,789)	-	-
Taxes Receivable	6,234,660	-	6,234,660	-
Special Assessments Receivable	2,011,462	37,574	2,049,036	6,120
Due from Governmental Units	1,492,926	-	1,492,926	174,635
Inventories	129,905	208,767	338,672	-
Other Assets	58,500	-	58,500	-
Prepays	5,817	-	5,817	13,026
Total Current Assets	<u>27,750,326</u>	<u>7,928,706</u>	<u>35,679,032</u>	<u>2,843,767</u>
Noncurrent Assets:				
Capital Assets Not Depreciated	6,358,648	8,877,706	15,236,354	42,822
Capital Assets (Net of Accumulated Depreciation)	<u>41,254,167</u>	<u>44,225,051</u>	<u>85,479,218</u>	<u>360,674</u>
Total Noncurrent Assets	<u>47,612,815</u>	<u>53,102,757</u>	<u>100,715,572</u>	<u>403,496</u>
TOTAL ASSETS	<u>\$ 75,363,141</u>	<u>\$ 61,031,463</u>	<u>\$ 136,394,604</u>	<u>\$ 3,247,263</u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 2,440,557	\$ 44,395	\$ 2,484,952	\$ 25,824
Accrued Liabilities	325,015	51,217	376,232	3,682
Accrued Interest Payable	97,996	749,160	847,156	-
Deferred Revenue	6,234,660	-	6,234,660	6,120
Due to Governmental Units	-	-	-	92,175
Bonds Payable	510,000	2,140,000	2,650,000	-
Installment Loans	296,292	-	296,292	-
Compensated Absences	-	-	-	3,427
Total Current Liabilities	<u>9,904,520</u>	<u>2,984,772</u>	<u>12,889,292</u>	<u>131,228</u>
Noncurrent Liabilities:				
Installment Loans	1,292,917	-	1,292,917	-
Bonds Payable	6,565,000	34,711,598	41,276,598	-
Compensated Absences	<u>798,505</u>	<u>140,861</u>	<u>939,366</u>	<u>49,438</u>
Total Noncurrent Liabilities	<u>8,656,422</u>	<u>34,852,459</u>	<u>43,508,881</u>	<u>49,438</u>
TOTAL LIABILITIES	<u>18,560,942</u>	<u>37,837,231</u>	<u>56,398,173</u>	<u>180,666</u>
NET ASSETS:				
Invested in Capital Assets (net of related debt)	38,948,606	7,572,731	46,521,337	403,496
Restricted for Trust	2,894,141	-	2,894,141	180,648
Unrestricted	<u>14,959,452</u>	<u>15,621,501</u>	<u>30,580,953</u>	<u>2,482,453</u>
TOTAL NET ASSETS	<u>\$ 56,802,199</u>	<u>\$ 23,194,232</u>	<u>\$ 79,996,431</u>	<u>\$ 3,066,597</u>

Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 57,339	\$ -	\$ -	\$ -	\$ (57,339)	\$ -	\$ (57,339)	\$ -
General Government	2,436,810	664,678	403,705	125,346	(1,243,081)	-	(1,243,081)	-
Public Safety	4,819,904	308,732	276,742	45,343	(4,189,087)	-	(4,189,087)	-
Public Works	8,194,309	68,039	1,303,431	285,211	(6,537,628)	-	(6,537,628)	-
Health & Welfare	1,699,639	1,864,039	-	-	164,400	-	164,400	-
Recreation & Culture	1,671,264	663,247	421,428	-	(586,589)	-	(586,589)	-
Other	2,046,276	-	-	-	(2,046,276)	-	(2,046,276)	-
Interest Expense	345,688	-	-	-	(345,688)	-	(345,688)	-
Total Governmental Activities	21,271,229	3,568,735	2,405,306	455,900	(14,841,288)	-	(14,841,288)	-
Business-type activities:								
Water & Sewer	5,855,130	6,184,260	-	2,905,821	-	3,234,951	3,234,951	-
Parking Deck	513,930	146,229	-	-	-	(367,701)	(367,701)	-
Parking	200,373	207,672	-	-	-	7,299	7,299	-
Total Business-type Activities	6,569,433	6,538,161	-	2,905,821	-	2,874,549	2,874,549	-
Total Primary Government	\$ 27,840,662	\$ 10,106,896	\$ 2,405,306	\$ 3,361,721	(14,841,288)	2,874,549	(11,966,739)	-
Component Units:								
EDC	\$ 211,018	\$ 133,349	\$ -	\$ -	-	-	-	(77,669)
DDA	211,136	44,512	-	-	-	-	-	(166,624)
TIFA	90,000	-	-	-	-	-	-	(90,000)
LFDA	73,559	-	-	-	-	-	-	(73,559)
Library	649,072	140,526	1,050	-	-	-	-	(507,496)
Total Component Units	1,234,785	318,387	1,050	-	-	-	-	(915,348)
Total	\$ 29,075,447	\$ 10,425,283	\$ 2,406,356	\$ 3,361,721	-	-	-	-
General Revenues:								
Taxes	-	-	-	-	7,072,048	-	7,072,048	674,689
State Revenue Sharing	-	-	-	-	1,442,659	-	1,442,659	-
Federal, State, & Local	-	-	-	-	20,900	-	20,900	591,837
Investment Earnings (Loss)	-	-	-	-	109,778	33,204	142,982	37,637
Gain on Sale of Assets	-	-	-	-	18,400	-	18,400	-
Transfers	-	-	-	-	2,633,286	(2,251,603)	381,683	(381,683)
Total General Revenues and Transfers	-	-	-	-	11,297,071	(2,218,399)	9,078,672	922,480
Change in Net Assets	-	-	-	-	(3,544,217)	656,150	(2,888,067)	7,132
Net Assets - Beginning	-	-	-	-	60,592,181	20,837,788	81,429,969	3,059,465
Prior Period Adjustment	-	-	-	-	(245,765)	1,700,294	1,454,529	-
Net Assets - Ending	-	-	-	-	\$ 56,802,199	\$ 23,194,232	\$ 79,996,431	\$ 3,066,597

See accompanying notes to financial statements.

City of Sault Ste. Marie, Michigan

Balance Sheet Governmental Funds June 30, 2011

	General	Major Streets	Local Streets	Capital Projects 2	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash & Equivalents - Unrestricted	\$ 920,631	\$ 424,597	\$ 187,598	\$ 4,504,848	\$ 6,480,375	\$ 12,518,049
Cash & Equivalents - Restricted	929,806	-	-	-	-	929,806
Investments - Restricted	69,898	-	-	-	2,559,918	2,629,816
Accounts Receivable	685,379	-	-	6,335	58,775	750,489
Taxes Receivable	6,234,660	-	-	-	-	6,234,660
Special Assessments Receivable	824,483	66,189	219,628	-	901,162	2,011,462
Due from Other Funds	34,247	-	-	11,667	-	45,914
Due from Governmental Units	575,092	110,703	43,115	86,859	677,157	1,492,926
Inventories	16,547	-	-	-	-	16,547
Prepays	5,817	-	-	-	-	5,817
TOTAL ASSETS	\$ 10,296,560	\$ 601,489	\$ 450,341	\$ 4,609,709	\$ 10,677,387	\$ 26,635,486
LIABILITIES:						
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 12,125	\$ 12,125
Accounts Payable	314,061	475	1,470	607,552	1,479,507	2,403,065
Accrued Liabilities	214,312	1,675	1,619	2,213	-	219,819
Deferred Revenue	7,059,143	66,189	219,628	-	901,162	8,246,122
TOTAL LIABILITIES	7,587,516	68,339	222,717	609,765	2,392,794	10,881,131
FUND BALANCES:						
Nonspendable	22,364	-	-	-	2,894,141	2,916,505
Restricted	-	533,150	227,624	3,999,944	4,058,727	8,819,445
Committed	1,199,704	-	-	-	-	1,199,704
Assigned	-	-	-	-	550,862	550,862
Unassigned	1,486,976	-	-	-	780,863	2,267,839
TOTAL FUND BALANCES	2,709,044	533,150	227,624	3,999,944	8,284,593	15,754,355
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,296,560	\$ 601,489	\$ 450,341	\$ 4,609,709	\$ 10,677,387	

Reconciliation to amounts reported for governmental activities in the statement of net assets:

Capital assets used by governmental activities	46,176,570
Special Assessments Receivable recognized as revenue	2,011,462
Long-term notes & leases payable for governmental activities	(8,664,209)
Compensated absences	(766,187)
Internal service funds included in governmental activities	2,388,204
Accrued interest expense payable	(97,996)
Net assets of governmental activities	\$ 56,802,199

See accompanying notes to financial statements.

**Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2011**

	General	Major Streets	Local Streets	Capital Projects 2	Other Governmental Funds	Totals Governmental Funds
REVENUES:						
Taxes	\$ 6,800,185	\$ -	\$ -	\$ 271,863	\$ -	\$ 7,072,048
Special Assessments	79,004	37,692	78,935	-	178,809	374,440
Licenses & Permits	47,961	-	-	-	-	47,961
Federal Sources	529,645	-	-	294,438	94,106	918,189
State Sources	1,638,803	896,301	389,923	39,221	-	2,964,248
Local Sources	-	-	-	-	442,328	442,328
Charges for Services	3,258,194	-	-	-	7,586	3,265,780
Rentals	23,057	-	-	-	78,835	101,892
Interest Earnings	26,554	10,209	14,971	6,324	51,720	109,778
Other Revenue	33,786	210	-	4,374	139,066	177,436
TOTAL REVENUES	12,437,189	944,412	483,829	616,220	992,450	15,474,100
EXPENDITURES:						
Legislative	57,339	-	-	-	-	57,339
General Government	2,080,001	-	-	-	-	2,080,001
Public Safety	4,639,609	-	-	-	-	4,639,609
Public Works	661,849	920,993	683,312	-	-	2,266,154
Health & Welfare	1,716,437	-	-	-	-	1,716,437
Recreation & Cultural	1,144,596	-	-	-	76,592	1,221,188
Capital Outlay	297,492	-	-	3,655,761	2,277,546	6,230,799
Debt Service	-	-	-	-	1,029,832	1,029,832
Other Expenditures	966,628	-	-	-	2,000	968,628
TOTAL EXPENDITURES	11,563,951	920,993	683,312	3,655,761	3,385,970	20,209,987
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	873,238	23,419	(199,483)	(3,039,541)	(2,393,520)	(4,735,887)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	200,944	19,585	359,996	1,732,044	5,044,535	7,357,104
Operating Transfers Out	(1,025,559)	(281,186)	(144,302)	(171,946)	(2,974,880)	(4,597,873)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	48,623	(238,182)	16,211	(1,479,443)	(323,865)	(1,976,656)
FUND BALANCES, JULY 1	2,660,421	891,451	211,413	5,479,387	8,734,104	17,976,776
Prior Period Adjustment	-	(120,119)	-	-	(125,646)	(245,765)
FUND BALANCES, JUNE 30	\$ 2,709,044	\$ 533,150	\$ 227,624	\$ 3,999,944	\$ 8,284,593	\$ 15,754,355

City of Sault Ste. Marie, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2011

Net changes in fund balances - total governmental funds \$ (1,976,656)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$2,794,673) exceeded capital outlay (\$1,072,540). (1,722,129)

Special assessments receivable are long-term in nature and are collectible over several years. However, only the current receipts are reflected as revenues in the funds. (380,374)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments 645,411

An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (109,215)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:

Compensated absences (60,312)
Accrued Interest 59,058

Changes in net assets of governmental activities \$ (3,544,217)

City of Sault Ste. Marie, Michigan

Statement of Net Assets Proprietary Funds June 30, 2011

	Business-Type Activities Enterprise Funds			Totals	Governmental Activities
	Water and Sewer	Parking Deck	Nonmajor Funds		Internal Service Funds
ASSETS:					
Cash & Equivalents - Unrestricted	\$ 787	\$ -	\$ 1,278,494	\$ 1,279,281	\$ 903,467
Cash & Equivalents - Restricted	5,904,086	-	30,549	5,934,635	106,590
Accounts Receivable	425,427	9,745	-	435,172	12,116
Special Assessments Receivable	37,574	-	-	37,574	-
Inventories	208,767	-	-	208,767	113,358
Other Assets	-	-	-	-	58,500
Capital Assets (Not Depreciated)	8,678,428	-	199,278	8,877,706	-
Capital Assets (Net of Accumulated Depreciation)	37,928,021	6,245,641	51,389	44,225,051	1,436,245
TOTAL ASSETS	\$ 53,183,090	\$ 6,255,386	\$ 1,559,710	\$ 60,998,186	\$ 2,630,276
LIABILITIES:					
Due to Other Funds	\$ -	\$ 33,789	\$ -	\$ 33,789	\$ -
Accounts Payable	38,378	4,752	1,265	44,395	37,492
Accrued Liabilities	48,356	269	2,592	51,217	105,196
Accrued Interest Payable	649,750	99,410	-	749,160	-
Compensated Absences	130,510	-	10,351	140,861	32,318
Bonds Payable - Current	1,970,000	170,000	-	2,140,000	-
Bonds Payable - Long-Term	29,426,598	5,285,000	-	34,711,598	-
TOTAL LIABILITIES	32,263,592	5,593,220	14,208	37,871,020	175,006
NET ASSETS:					
Invested in Capital Assets (net of related debt)	6,531,423	790,641	250,667	7,572,731	1,436,245
Restricted	5,904,086	-	30,549	5,934,635	106,590
Unrestricted	8,483,989	(128,475)	1,264,286	9,619,800	912,435
TOTAL NET ASSETS	\$ 20,919,498	\$ 662,166	\$ 1,545,502	23,127,166	\$ 2,455,270
Reconciliation to amounts reported for business activities in the statement of net assets:					
Internal service funds included in business-type activities				67,066	
Net assets of business-type activities				\$ 23,194,232	

City of Sault Ste. Marie, Michigan

Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds For the Year Ended June 30, 2011

	Business-Type Activities Enterprise Funds			Governmental Activities	
	Water and Sewer	Parking Deck	Nonmajor Funds	Totals	Internal Service Funds
OPERATING REVENUES:					
Charges for Services	\$ 5,957,860	\$ 27,787	\$ 207,672	\$ 6,193,319	\$ 3,296,949
Other Revenue	223,084	-	-	223,084	27,601
Total Operating Revenues	6,180,944	27,787	207,672	6,416,403	3,324,550
OPERATING EXPENSES:					
Personnel	1,442,832	8,172	109,198	1,560,202	578,335
Supplies	200,817	860	6,138	207,815	456,492
Contracted Services	175,153	16,284	11,810	203,247	49,671
Parking Lot Expenses	-	-	62,895	62,895	-
Insurance	69,800	3,900	4,500	78,200	1,427,194
Utilities	458,090	29,692	-	487,782	69,557
Repair & Maintenance	86,357	6,900	703	93,960	213,098
Rental	58,519	-	-	58,519	-
Depreciation	1,144,088	149,944	5,129	1,299,161	412,281
Other Expenses	802,113	-	-	802,113	62,827
Total Operating Expenses	4,437,769	215,752	200,373	4,853,894	3,269,455
OPERATING INCOME (LOSS)	1,743,175	(187,965)	7,299	1,562,509	55,095
NON-OPERATING REVENUES (EXPENSES):					
Federal Sources	2,905,821	-	-	2,905,821	-
Local Sources	-	118,442	-	118,442	-
Interest Income	30,021	1,006	2,177	33,204	1,450
Interest Expense	(1,457,176)	(298,178)	-	(1,755,354)	-
Other	3,316	-	-	3,316	-
Total Non-operating Revenues (Expenses)	1,481,982	(178,730)	2,177	1,305,429	1,450
Income (Loss) Before Transfers	3,225,157	(366,695)	9,476	2,867,938	56,545
Transfers					
Operating Transfers In	5,111,434	326,024	207,425	5,644,883	50,055
Operating Transfers Out	(7,665,379)	-	(231,107)	(7,896,486)	(176,000)
Total Transfers	(2,553,945)	326,024	(23,682)	(2,251,603)	(125,945)
CHANGES IN NET ASSETS	671,212	(40,671)	(14,206)	616,335	(69,400)
NET ASSETS, JULY 1	18,547,992	702,837	1,559,708	20,810,537	2,524,670
Prior Period Adjustment	1,700,294	-	-	1,700,294	-
NET ASSETS, JUNE 30	<u>\$ 20,919,498</u>	<u>\$ 662,166</u>	<u>\$ 1,545,502</u>	<u>\$ 23,127,166</u>	<u>\$ 2,455,270</u>

**Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2011**

	Business-Type Activities Enterprise Funds			Governmental Activities	
	Water and Sewer	Parking Deck	Nonmajor Funds	Totals	Internal Service Fund
Cash Flows From Operating Activities					
Receipts from Customers or Users	\$ 6,188,249	\$ 26,764	\$ 207,672	\$ 6,422,685	\$ 3,457,897
Cash Payments to Vendors	(1,867,517)	(54,640)	(91,014)	(2,013,171)	(2,253,021)
Cash Paid to Employees	(1,122,796)	30,582	(114,564)	(1,206,778)	(563,178)
Net Cash Provided (Used) by Operating Activities	<u>3,197,936</u>	<u>2,706</u>	<u>2,094</u>	<u>3,202,736</u>	<u>641,698</u>
Cash Flows From Noncapital and Related Financing Activities:					
Federal Sources	2,905,821	-	-	2,905,821	-
Local Sources	-	118,442	-	118,442	-
Other Revenue	3,316	-	-	3,316	-
Operating Transfers In	5,111,434	326,024	207,425	5,644,883	50,055
Operating Transfers Out	(7,665,379)	-	(231,107)	(7,896,486)	(176,000)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>355,192</u>	<u>444,466</u>	<u>(23,682)</u>	<u>775,976</u>	<u>(125,945)</u>
Cash Flows from Capital and Related Financing Activities:					
Bond Proceeds	3,846,590	-	-	3,846,590	-
Purchase of Capital Assets	(5,820,289)	-	(26,570)	(5,846,859)	(115,111)
Interest Payments	(1,457,176)	(298,178)	-	(1,755,354)	-
Principal Payments	(5,181,000)	(150,000)	-	(5,331,000)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(8,611,875)</u>	<u>(448,178)</u>	<u>(26,570)</u>	<u>(9,086,623)</u>	<u>(115,111)</u>
Cash Flows From Investing Activities:					
Interest Income	30,021	1,006	2,177	33,204	1,450
Net Cash Provided (Used) by Investing Activities	<u>30,021</u>	<u>1,006</u>	<u>2,177</u>	<u>33,204</u>	<u>1,450</u>
Net Increase (Decrease) in Cash and Equivalents	(5,028,726)	-	(45,981)	(5,074,707)	402,092
Balances - Beginning of the Year	10,933,599	-	1,355,024	12,288,623	607,965
Balances - End of the Year	<u>\$ 5,904,873</u>	<u>\$ -</u>	<u>\$ 1,309,043</u>	<u>\$ 7,213,916</u>	<u>\$ 1,010,057</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 1,743,175	\$ (187,965)	\$ 7,299	\$ 1,562,509	\$ 55,095
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	1,144,088	149,944	5,129	1,299,161	412,281
Change in Assets and Liabilities:					
(Increase) Decrease in Assets:					
Accounts Receivable	13,379	(1,023)	-	12,356	8,477
Special Assessments Receivable	4,969	-	-	4,969	-
Inventory	(11,208)	-	-	(11,208)	49,105
Other Assets	165	-	-	165	124,870
Increase (Decrease) in Liabilities:					
Accounts Payable	(16,668)	2,996	(4,968)	(18,640)	2,245
Accrued Liabilities	301,679	58,766	(310)	360,135	15,400
Due to other funds	-	(20,012)	-	(20,012)	(31,308)
Compensated Absences	18,357	-	(5,056)	13,301	5,533
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,197,936</u>	<u>\$ 2,706</u>	<u>\$ 2,094</u>	<u>\$ 3,202,736</u>	<u>\$ 641,698</u>

City of Sault Ste. Marie, Michigan

**Reconciliation of the Statement of Revenues, Expenses,
and Changes in Net Assets of Proprietary Funds
to the Statement of Activities
For the Year Ended June 30, 2011**

Net changes in fund balances - total proprietary funds \$ 616,335

The change in net assets reported for business-type activities in the statement of activities is different because:

Internal Service Funds are included as business-type activities. 39,815

Changes in net assets of business-type activities \$ 656,150

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011**

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
ASSETS:		
Cash & Equivalents - Unrestricted	\$ -	\$ 208,687
Total Cash & Equivalents	<u>-</u>	<u>208,687</u>
Investments, at fair value:		
Mutual Funds		1,492,601
Equity Securities	12,731,765	-
Total Investments	<u>12,731,765</u>	<u>1,492,601</u>
TOTAL ASSETS	<u>\$ 12,731,765</u>	<u>\$ 1,701,288</u>
LIABILITIES:		
Accrued Liabilities	\$ -	\$ 1,540,686
Due to Governmental Units	<u>-</u>	<u>160,602</u>
TOTAL LIABILITIES	<u>-</u>	<u>\$ 1,701,288</u>
NET ASSETS:		
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 12,731,765</u>	

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2011**

	<u>Employee Retirement Plan</u>
ADDITIONS:	
Contributions:	
Employer & Employee	\$ 1,175,492
Total Contributions	<u>1,175,492</u>
Investment Earnings:	
Net Increase in Fair Value of Investments	1,867,154
Interest, Dividends	<u>500,242</u>
Total Investment Earnings	<u>2,367,396</u>
Total Additions	<u>3,542,888</u>
DEDUCTIONS:	
Benefits	1,446,899
Other Expenses	28,859
Administrative Expenses	<u>67,789</u>
Total Deductions	<u>1,543,547</u>
Changes in Net Assets	1,999,341
Net Assets, Beginning of the Year	<u>10,732,424</u>
Net Assets, End of the Year	<u><u>\$ 12,731,765</u></u>

Component Units

City of Sault Ste. Marie, Michigan

**Statement of Net Assets
Component Units
June 30, 2011**

	<u>EDC</u>	<u>DDA</u>	<u>TIFA III</u>	<u>LDFA</u>	<u>Library</u>	<u>Totals</u>
ASSETS:						
Cash & Equivalents - Unrestricted	\$ 360,971	\$ 814,078	\$ 418,123	\$ 189,299	\$ 746,382	\$ 2,528,853
Investments - Unrestricted	107,610	-	-	-	-	107,610
Accounts Receivable	-	-	-	-	13,523	13,523
Special Assessments Receivable	-	6,120	-	-	-	6,120
Due from Other Governmental Units	174,635	-	-	-	-	174,635
Prepaid Expenses	-	-	-	-	13,026	13,026
Capital Assets Not Depreciated	20,000	-	-	-	22,822	42,822
Capital Assets (net)	9,264	-	-	-	351,410	360,674
TOTAL ASSETS	<u>\$ 672,480</u>	<u>\$ 820,198</u>	<u>\$ 418,123</u>	<u>\$ 189,299</u>	<u>\$ 1,147,163</u>	<u>\$ 3,247,263</u>
LIABILITIES:						
Accounts Payable	\$ 14,054	\$ 6,372	\$ -	\$ -	\$ 5,398	\$ 25,824
Accrued Liabilities	-	3,682	-	-	-	3,682
Due to Governmental Units	-	-	-	-	92,175	92,175
Deferred Revenue	-	6,120	-	-	-	6,120
Compensated Absences - Current	-	3,427	-	-	-	3,427
Compensated Absences - Noncurrent	27,390	1,378	-	-	20,670	49,438
TOTAL LIABILITIES	<u>41,444</u>	<u>20,979</u>	<u>-</u>	<u>-</u>	<u>118,243</u>	<u>180,666</u>
NET ASSETS:						
Invested in Capital Assets	29,264	-	-	-	374,232	403,496
Restricted for Trust	-	-	-	-	180,648	180,648
Unrestricted	601,772	799,219	418,123	189,299	474,040	2,482,453
TOTAL NET ASSETS	<u>631,036</u>	<u>799,219</u>	<u>418,123</u>	<u>189,299</u>	<u>1,028,920</u>	<u>3,066,597</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 672,480</u>	<u>\$ 820,198</u>	<u>\$ 418,123</u>	<u>\$ 189,299</u>	<u>\$ 1,147,163</u>	<u>\$ 3,247,263</u>

See accompanying notes to financial statements.

**Statement of Activities
Component Units
For the Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
		Charges for Services	Operating Grants and Grants	Capital Grants and Contributions	EDC	DDA	TIFA III	LDFA	Library	Total
Economic Development Corp.:										
Economic Development	\$ 211,018	\$ 133,349	\$ -	\$ -	\$ (77,669)	\$ -	\$ -	\$ -	\$ -	\$ (77,669)
DDA:										
Recreation & Culture	211,136	44,512	-	-	-	(166,624)	-	-	-	(166,624)
TIFA:										
Recreation & Culture	90,000	-	-	-	-	-	(90,000)	-	-	(90,000)
LDFA:										
Recreation & Culture	73,559	-	-	-	-	-	-	(73,559)	-	(73,559)
Library:										
Recreation & Culture	649,072	140,526	1,050	-	-	-	-	-	(507,496)	(507,496)
Total Component Units	<u>\$ 1,234,785</u>	<u>\$ 318,387</u>	<u>\$ 1,050</u>	<u>\$ -</u>	<u>(77,669)</u>	<u>(166,624)</u>	<u>(90,000)</u>	<u>(73,559)</u>	<u>(507,496)</u>	<u>(915,348)</u>
General Revenues and Transfers:										
Taxes					-	384,790	173,600	116,299	-	674,689
Local Sources					112,000	-	-	90,000	338,848	540,848
State Sources					-	-	-	-	14,871	14,871
Investment Earnings					12,026	2,201	2,857	-	20,553	37,637
Other					-	-	-	-	36,118	36,118
Transfers					-	(314,058)	(67,625)	-	-	(381,683)
Total General Revenues and Transfers					<u>124,026</u>	<u>72,933</u>	<u>108,832</u>	<u>206,299</u>	<u>410,390</u>	<u>922,480</u>
Change in Net Assets					46,357	(93,691)	18,832	132,740	(97,106)	7,132
Net Assets - Beginning					584,679	892,910	399,291	56,559	1,126,026	3,059,465
Net Assets - Ending					<u>\$ 631,036</u>	<u>\$ 799,219</u>	<u>\$ 418,123</u>	<u>\$ 189,299</u>	<u>\$ 1,028,920</u>	<u>\$ 3,066,597</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Reporting Entity**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of *the City of Sault Ste. Marie* (the "City") and its component units. The component units discussed below are included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Recreational Building Authority is a blended component unit of the City.

Discretely Presented Component Units

The Economic Development Corporation (EDC), Downtown Development Authority (the "DDA"), TIFA III, Local Development Financing Authority (LDFA), and Bayliss Public Library (Library) are reported in a separate column to emphasize that legally separate from the City. The members of the governing Boards are appointed by the City Commission and the budgets and expenditures must be approved by the City Commission. The City also has the ability to significantly influence operations of these organizations. Separate financial statements of the EDC are available at the Economic Development Corporation, 1301 W. Easterday, Sault Ste. Marie, MI 49783. Separate financial statements of the Library are available at Bayliss Public Library, 541 Library Drive, Sault Ste. Marie, MI 49783.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental 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 the 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 segment is 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*.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 proprietary funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City'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 Streets Fund* accounts for the use of motor fuel taxes which are restricted by State statutes for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street and highway purposes.

The *Capital Projects 2 Fund* accounts for the activity related to various projects.

The City reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for the operations, maintenance and development of water and sewer facilities.

The *Parking Deck Fund* accounts for the operation and maintenance of the downtown parking deck.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Capital Project Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent Funds. The Seal Estate Trust, Governor Osborn Trust, and Cemetery Perpetual Care Trust are the City's Permanent Funds. The principal portion of these funds must stay intact, but the interest earnings are used to provide for purposes defined by each trust.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Funds. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to provide business enterprises where the intent of the governing body is that the cost (expense including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. These funds account for operations that provide data processing services, machinery and equipment, and health insurance to other departments of the city on a cost-reimbursement basis.

Pension Trust Fund. This fund accounts for the activities of the City's employee retirement system, which accumulates resources for retirement benefit payments to qualified employees.

Agency Fund. This fund accounts for assets held for other governments and employees in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. Property taxes, state revenue, and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide financial statements and proprietary funds of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and proprietary type funds, subject to this same limitation. The City 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 and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. 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 City's enterprise and internal service funds are charges to customers for sales and services. The City 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 enterprise funds and 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.

D. Assets, Liabilities, and Equity***Deposits and Investments***

The City maintains an investment pool for certain City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and equivalents". The debt service and trust and agency funds cash resources are invested separately as required by law.

The City's cash and equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted of certificate of deposits and an employer benefit plan for pension trust investments.

Receivables and Payables

All receivables are reported at their gross value, except the General Fund ambulance receivable which is shown net of an estimated allowance for uncollectible accounts of \$240,000.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reports as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property Taxes

The City’s property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 15; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Chippewa County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method.

Prepays Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both governmental-wide and fund financial statements.

Restricted Assets

Certain resources are set aside for repayment of the City’s Water and Sewer Enterprise Fund revenue bonds and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings and building improvements	15-40 years
Land improvements	10-15 years
Marina	7-40 years
Public domain infrastructure	10-50 years
Water and wastewater system infrastructure	20-75 years
Vehicles	2-20 years
Machinery and equipment	5-25 years

Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example as a result of employee resignations or 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.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable**: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City. These amounts cannot be used for any other purpose unless the City removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City has committed \$223,214 for Fire Equipment Replacement, \$385,297 for Carbide Dock, \$200,000 for Capital Commitments, \$1,193 for Lawrence Pullar Reserve, \$250,000 for Fort Street Bridge Reassembly, \$60,000 for Zamboni, and \$80,000 for Ambulance and Intercept Unit within the General Fund.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned funds for the Other Special Revenue Fund.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budgets and Budgetary Control – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each April, after receiving input from the individual departments, the City Manager prepares a proposed operating budget for the fiscal period commencing July 1 and lapses on June 30. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through a resolution passed by the City Commission.
- d. Budgetary control is exercised at the functional level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the City Commission. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The City does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General Fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the City’s deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents - Unrestricted	\$ 13,354,450	\$ 1,346,347	\$ 14,700,797	\$ 208,687	\$ 2,528,853
Cash and Equivalents – Restricted	<u>1,036,396</u>	<u>5,934,635</u>	<u>6,971,031</u>	-	-
Total	<u>\$ 14,390,846</u>	<u>\$ 7,280,982</u>	<u>\$ 21,671,828</u>	<u>\$ 208,687</u>	<u>\$ 2,528,853</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 21,669,136	\$ 208,687	\$ 2,528,853
Petty Cash and Cash on Hand	<u>2,692</u>	-	-
Total	<u>\$ 21,671,828</u>	<u>\$ 208,687</u>	<u>\$ 2,528,853</u>

Cash is restricted in the amount of \$5,904,086 for the water and sewer fund, \$929,806 for the general fund and \$106,590 for the stock and equipment fund. Investments are restricted in the amount of \$1,567,332 for the Seal Estate Trust, \$940,000 for the Governor Osborn Trust, and \$52,586 for the Cemetery Perpetual Care.

	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>	<u>Ratings</u>
Investments:						
U.S. Treasury – Securities	\$ 1,152,332	\$ -	\$ -	\$ -	\$ 1,152,332	AAA
Equity Securities	6,500,122	6,500,122	-	-	-	Not Assigned
Mutual Funds	7,275,528	7,275,528	-	-	-	Not Assigned
Bond Funds	230,701	230,701	-	-	-	Not Assigned
Money Market Certificates of Deposits	<u>204,124</u>	<u>204,124</u>	-	-	-	Not Assigned
	<u>1,598,985</u>	<u>1,598,985</u>	-	-	-	Not Assigned
Total Investments	<u>\$ 16,961,792</u>	<u>\$ 15,809,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,152,332</u>	

Government Activities:	
Restricted	\$ 2,629,816
Fiduciary:	
Restricted	14,224,366
Component Unit - EDC:	
Unrestricted	<u>107,610</u>
Total	<u>\$ 16,961,792</u>

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. Credit quality ratings of public money funds were not available from the financial institutions or are unrated.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$21,956,557 of the City's bank balance of \$23,053,476 was exposed to credit risk because it was uninsured and uncollateralized.

Custodial investment credit risk. Custodial investments credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the City's \$16,961,792 in investments, \$0 is not in the name of the City, but in the name of the agent.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the City to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The City's deposits and investment policy are in accordance with statutory authority.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deductions/ Adjustments</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 2,896,723	\$ 1,054,186	\$ -	\$ 3,950,909
Land	<u>2,404,327</u>	<u>3,412</u>	<u>-</u>	<u>2,407,739</u>
Subtotal	<u>5,301,050</u>	<u>1,057,598</u>	<u>-</u>	<u>6,358,648</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	10,892,443	187,908	(1,975,347)	9,105,004
Land improvements	4,989,094	-	-	4,989,094
Furniture & equipment	9,714,315	245,780	(150,614)	9,809,481
Infrastructure	<u>56,213,897</u>	<u>1,095,245</u>	<u>(2)</u>	<u>57,309,140</u>
Subtotal	<u>81,809,749</u>	<u>1,528,933</u>	<u>(2,125,963)</u>	<u>81,212,719</u>
<i>Less accumulated depreciation on:</i>				
Buildings and improvements	(3,991,277)	(318,027)	752,577	(3,556,727)
Land improvements	(1,339,229)	(230,573)	(144,370)	(1,714,172)
Furniture & equipment	(5,853,052)	(705,481)	176,441	(6,382,092)
Infrastructure	<u>(26,295,127)</u>	<u>(1,952,873)</u>	<u>(57,561)</u>	<u>(28,305,561)</u>
Subtotal	<u>(37,478,685)</u>	<u>(3,206,954)</u>	<u>727,087</u>	<u>(39,958,552)</u>
Net Capital Assets Being Depreciated	<u>44,331,064</u>	<u>(1,678,021)</u>	<u>(1,398,876)</u>	<u>41,254,167</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 49,632,114</u>	<u>\$ (620,423)</u>	<u>\$ (1,398,876)</u>	<u>\$ 47,612,815</u>

NOTE 4 - CAPITAL ASSETS (Continued)

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

Governmental Activities

General government	\$ 37,358
Public Safety	191,724
Public Works	2,150,548
Recreation and Culture	453,663
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>373,661</u>

Total Depreciation Expense - Governmental Activities \$ 3,206,954

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 998,669	\$ 7,671,988	\$ -	\$ 8,670,657
Land	<u>207,049</u>	<u>-</u>	<u>-</u>	<u>207,049</u>
Subtotal	<u>1,205,718</u>	<u>7,671,988</u>	<u>-</u>	<u>8,877,706</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	23,618,799	11,898	267	23,630,964
Equipment	2,446,336	14,672	(24,327)	2,436,681
Water and sewer	<u>41,421,356</u>	<u>-</u>	<u>-</u>	<u>41,421,356</u>
Subtotal	<u>67,486,491</u>	<u>26,570</u>	<u>(24,060)</u>	<u>67,489,001</u>
<i>Less accumulated depreciation on:</i>				
Buildings and improvements	(10,244,640)	(371,845)	-	(10,616,485)
Equipment	(1,188,039)	(101,824)	23,075	(1,266,788)
Water and sewer	<u>(10,555,035)</u>	<u>(825,492)</u>	<u>(150)</u>	<u>(11,380,677)</u>
Subtotal	<u>(21,987,714)</u>	<u>(1,299,161)</u>	<u>22,925</u>	<u>(23,263,950)</u>
Net Capital Assets Being Depreciated	<u>45,498,777</u>	<u>(1,272,591)</u>	<u>(1,135)</u>	<u>44,225,051</u>
Business-type Activities Capital Assets - Net of Depreciation	<u>\$ 46,704,495</u>	<u>\$ 6,399,397</u>	<u>\$ (1,135)</u>	<u>\$ 53,102,757</u>

Business - type Activities

Water and sewer	\$ 1,144,088
Parking deck	149,944
Parking	<u>5,129</u>

Total Depreciation Expense – Business - type Activities \$ 1,299,161

NOTE 4 - CAPITAL ASSETS (Continued)

Capital asset activity of the Economic Development Corporation for the current year was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
<i>Capital assets being depreciated:</i>				
Vehicles	18,889	-	-	18,889
Equipment	29,444	-	-	29,444
Subtotal	48,333	-	-	48,333
<i>Less accumulated depreciation:</i>				
Vehicles	(7,556)	(3,778)	-	(11,334)
Equipment	(24,478)	(3,257)	-	(27,735)
Subtotal	(32,034)	(7,035)	-	(39,069)
Net Capital Assets Being Depreciated	16,299	(7,035)	-	9,264
Capital assets – Net of depreciation	\$ 36,299	\$ (7,035)	\$ -	\$ 29,264

Depreciation expense was charged to economic development in the amount of \$7,035.

Capital asset activity of the Bayliss Public Library for the current year was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Construction in progress	\$ 106,623	\$ -	\$ (106,623)	\$ -
Land	22,822	-	-	22,822
Subtotal	129,445	-	(106,623)	22,822
<i>Capital assets being depreciated:</i>				
Land improvements	15,250	50,993	-	66,243
Furniture and equipment	190,692	3,104	-	193,796
Building and improvements	485,152	21,232	106,623	613,007
Book collection	460,856	-	-	460,856
Subtotal	1,151,950	75,329	106,623	1,333,902
<i>Less accumulated depreciation:</i>				
Land improvements	(15,250)	(1,837)	-	(17,087)
Furniture and equipment	(165,231)	(6,479)	-	(171,710)
Building and improvements	(410,481)	(16,325)	-	(426,806)
Book collection	(335,638)	(31,251)	-	(366,889)
Subtotal	(926,600)	(55,892)	-	(982,492)
Net Capital Assets Being Depreciated	225,350	19,437	106,623	351,410
Capital assets – Net of depreciation	\$ 354,795	\$ 19,437	\$ -	\$ 374,232

Depreciation expense of \$55,892 has been recorded with recreation and culture expenses.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in Interfund Receivables and Payables are as follows:

		DUE TO OTHER FUNDS		
		Nonmajor Governmental	Parking Deck	Total
DUE FROM OTHER FUNDS	General	\$ 458	\$ 33,789	\$ 34,247
	Capital Projects 2	<u>11,667</u>	<u>-</u>	<u>11,667</u>
	Totals	<u>\$ 12,125</u>	<u>\$ 33,789</u>	<u>\$ 45,914</u>

All balances resulted 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.

		TRANSFERS (OUT)									
		General	Major Streets	Local Streets	Capital Projects 2	Nonmajor Governmental	Component Unit	Internal Service	Water and Sewer	Nonmajor Enterprise	Total
TRANSFERS IN	General	\$ 51,996	\$ -	\$ -	\$ 14,840	\$ 4,108	\$ 80,000	\$ 50,000	\$ -	\$ -	\$ 200,944
	Major Streets	-	-	-	19,585	-	-	-	-	19,585	
	Local Streets	309,996	-	-	-	-	50,000	-	-	359,996	
	Capital Projects 2	88,931	130,250	16,070	-	553,050	38,000	26,000	700,036	179,707	1,732,044
	Nonmajor Governmental	504,636	150,936	128,232	128,727	161,338	64,625	-	3,906,041	-	5,044,535
	Water and Sewer	-	-	-	-	2,220,634	-	-	2,839,400	51,400	5,111,434
	Internal Service	-	-	-	-	-	-	-	50,055	-	50,055
	Parking Deck	-	-	-	-	-	304,808	-	21,216	-	326,024
	Nonmajor Enterprise	-	-	-	8,794	-	-	50,000	148,631	-	207,425
	Component Unit	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,750</u>	<u>207,095</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>312,845</u>
Total	<u>\$ 1,025,559</u>	<u>\$ 281,186</u>	<u>\$ 144,302</u>	<u>\$ 171,946</u>	<u>\$ 2,974,880</u>	<u>\$ 694,528</u>	<u>\$ 176,000</u>	<u>\$ 7,665,379</u>	<u>\$ 231,107</u>	<u>\$ 13,364,887</u>	

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. City contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Governmental Activities					
2005 General Obligation Limited Tax Bonds, maturing serially to 2016 in annual payments ranging from \$50,000 to \$175,000 and bearing interest ranging from 2.50% to 3.75%.	\$ 1,030,000	\$ -	\$ 165,000	\$ 865,000	\$ 170,000
2000 Michigan Transportation Authority Bonds, maturing serially to 2015 in annual payments ranging from \$25,000 to \$160,000 and bearing interest ranging from 5.00% to 5.30%.	645,000	-	30,000	615,000	30,000
1997 Building Authority Bonds, maturing serially to 2015 in annual amounts ranging from \$45,000 to \$70,000 and bearing interest ranging from 5.15% to 5.50%.	365,000	-	50,000	315,000	55,000
1997 Michigan Transportation Authority Bonds, maturing serially to 2012 in annual amounts ranging from \$75,000 to \$95,000 and bearing interest ranging from 5.10% to 5.30%.	185,000	-	90,000	95,000	95,000
1994 Recreational Building Authority Note maturing serially to 2019 in annual amounts of \$35,000 including interest at 5.38%.	244,944	-	34,709	210,235	22,142
2004 CDBG non-interest bearing loan, due in equal annual installments of \$39,500 for 10 years beginning July 1, 2005.	207,375	-	39,500	167,875	39,500

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities (Continued)					
2007 Michigan State Infrastructure Bank Loan, maturing serially to 2013 in annual installments of \$166,138 including interest at 6.10%.	617,550	-	148,361	469,189	152,040
2008 Michigan Transportation Fund Bonds, maturing serially to 2023 in annual installments ranging from \$5,000 to \$75,000 including interest ranging from 3.25% to 4.45%.	685,000	-	5,000	680,000	5,000
2010 LTGO Build America Bonds, maturing serially to 2029 due annually with payments ranging from \$155,000 to \$380,000 including interest ranging from 1.5% to 6.45%.	4,505,000	-	-	4,505,000	155,000
2006 General Obligation Municipal Installment Purchase Contract Note, maturing serially to 2021 in semiannual installments of \$31,518 including interest at 4.60%.	558,093	-	37,795	520,298	39,551
Advance from Economic Development Corporation (a component unit of the City), maturity in 2017 with annual installments ranging from \$3,500 to \$51,315 including interest at 4.5%.	194,960	-	20,325	174,635	28,002
2006 Installment Purchase Note, maturing in 2011 with monthly installments of \$953 including interest at 4.49%	10,345	-	10,345	-	-
2009 Installment Note, with payments due the 8 th of every month in the amount of \$1,375, with interest at 3.601%. First payment due July 8, 2009 and the last payment on June 8, 2014.	61,353	-	14,376	46,977	15,057
Compensated Absences – (net)	<u>732,660</u>	<u>65,845</u>	<u>-</u>	<u>798,505</u>	<u>-</u>
Total Governmental Activities – Long-Term Debt	<u>10,042,280</u>	<u>65,845</u>	<u>645,411</u>	<u>9,462,714</u>	<u>806,292</u>

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities					
1998 State Drinking Water Revolving Fund Loan, maturing serially to 2020 in annual installments ranging from \$195,000 to \$260,000 and bearing interest at 2.50%.	2,335,000	-	210,000	2,125,000	215,000
2002 General Obligation Limited Tax Bonds, maturing serially to 2023 in annual installments ranging from \$65,000 to \$325,000 and bearing interest ranging from 3.00% to 5.25%.	3,105,000	-	65,000	3,040,000	160,000
2002 General Obligation Unlimited Tax Refunding Bonds maturing serially to 2010 in annual installments ranging from \$610,000 to \$705,000 and bearing interest ranging from 4.25% to 4.50%.	705,000	-	705,000	-	-
1998 State Revolving Fund Combined Sewer Overflow (CSO) Loan, maturing serially to 2020 in annual installments ranging from \$180,000 to \$230,000 and bearing interest at 2.25%.	2,125,000	-	190,000	1,935,000	195,000
1995 State Revolving Fund (CSO) Loan, maturing serially to 2017 in annual installments ranging from \$190,000 to \$230,000 and bearing interest at 2.25%.	1,530,000	-	205,000	1,325,000	210,000
1998 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds, maturing serially to 2018 in annual installments ranging from \$105,000 to \$450,000 and bearing interest ranging from 3.90% to 4.25%.	1,945,000	-	115,000	1,830,000	115,000
2005 Downtown Development Bonds, maturing serially to 2026 in annual installments beginning November 2006, ranging from \$85,000 to \$565,000 bearing interest ranging from 4.25% to 4.40%.	5,605,000	-	150,000	5,455,000	170,000
2001 Water supply and Sewer System Limited Tax General Obligation Bonds, maturing serially to 2022 in annual installments ranging from \$65,000 to \$260,000 and bearing interest ranging from 4.00% to 5.005%.	2,130,000	-	75,000	2,055,000	85,000

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities (Continued)					
1995 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds, maturing serially to 2015 in annual installments ranging from \$180,000 to \$280,000 and bearing interest at 5.00%.	1,465,000	-	205,000	1,260,000	220,000
2002 Clean Water Program State Revolving Fund CSO General Obligation Limited Tax Sewage Disposal System Bond, maturing serially to 2024 in annual installments ranging from \$145,000 to \$210,000 and bearing interest at 2.50%.	2,535,000	-	155,000	2,380,000	155,000
2003 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds, maturing serially to 2024 in annual installments ranging from \$130,000 to \$195,000 and bearing interest at 2.50%.	2,350,000	-	145,000	2,205,000	145,000
2001 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply system Improvement Revenue Bonds, maturing serially to 2023 in annual installments ranging from \$80,000 to \$110,000 and bearing interest at 2.50%.	1,260,607	-	85,000	1,175,607	85,000
1997 Limited Tax General Obligation Bonds, maturing serially to 2017 in annual installments ranging from \$35,000 to \$65,000 and bearing interest ranging from 4.90% to 5.30%.	425,000	-	45,000	380,000	45,000
1997 State Water Pollution Control Revolving Fund Limited Tax General Obligation Bonds, maturing serially to 2018 in annual installments ranging from \$30,000 to \$35,000 and bearing interest at 2.25%.	310,000	-	35,000	275,000	35,000
2005 General Obligation Limited Tax Bonds (Series B), maturing serially to 2025 in installments ranging from \$25,000 to \$60,000 and bearing interest from 3.85% to 4.625%.	675,000	-	30,000	645,000	30,000
2010 CSO Build America Bonds, maturing serially to 2029 in annual installment ranging from \$275,000 to \$655,000 and bearing interest ranging from 1.4% to 6.35%.	7,870,000	-	-	7,870,000	275,000

NOTE 6 - LONG-TERM DEBT (Continued)

	Beginning Balance	Increases/ Adjustments	Decreases	Ending Balance	Due Within One Year
Business-Type Activities (Continued)					
2010 State Revolving Fund Bonds, maturing serially to 2031 in annual installments ranging from \$7,000 to \$20,000 and bearing interest at 2.5%.	103,840	-	103,840	-	-
2010 State Revolving Fund Bonds, maturing serially to 2031 in annual installments ranging from \$187,000 to \$305,000 and bearing interest at 2.5%.	1,711,561	3,846,590	2,662,160	2,895,991	-
Compensated Absences – (net)	128,541	12,320	-	140,861	-
Total Business – Type Activities – Long-Term Debt	<u>38,314,549</u>	<u>3,858,910</u>	<u>5,181,000</u>	<u>36,992,459</u>	<u>2,140,000</u>
Total Long-Term Debt	<u>\$ 48,356,829</u>	<u>\$ 3,924,755</u>	<u>\$ 5,826,411</u>	<u>\$ 46,455,173</u>	<u>\$ 2,946,291</u>

Component Units

Economic Development Corporation

Compensated Absences – (net)	<u>\$ 37,539</u>	<u>\$ -</u>	<u>\$ 10,149</u>	<u>\$ 27,390</u>	<u>\$ -</u>
------------------------------	------------------	-------------	------------------	------------------	-------------

DDA

Compensated Absences	<u>\$ 4,172</u>	<u>\$ 633</u>	<u>\$ -</u>	<u>\$ 4,805</u>	<u>\$ -</u>
----------------------	-----------------	---------------	-------------	-----------------	-------------

Bayliss Public Library

Compensated Absences	<u>\$ 15,541</u>	<u>\$ 20,441</u>	<u>\$ 15,312</u>	<u>\$ 20,670</u>	<u>\$ -</u>
----------------------	------------------	------------------	------------------	------------------	-------------

Accumulated compensated absences are generally liquidated by the General Fund.

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 806,291	\$ 313,942	\$ 2,140,000	\$ 1,230,685
2013	880,487	284,740	2,419,000	1,162,298
2014	909,390	254,614	2,510,000	1,085,350
2015	770,883	222,707	2,595,000	1,004,894
2016	753,024	192,921	2,690,000	921,263
2017-2021	1,670,284	745,048	12,809,834	5,200,482
2022-2026	1,488,850	431,946	8,737,764	1,303,374
2027-2031	<u>1,385,000</u>	<u>120,639</u>	<u>2,950,000</u>	<u>215,302</u>
Total	<u>\$ 8,664,209</u>	<u>\$ 2,566,557</u>	<u>\$ 36,851,598</u>	<u>\$ 12,123,648</u>

NOTE 6 - LONG-TERM DEBT (Continued)

Compensated Absences

Employees of the City earn sick and vacation time at varying rates based on the following:

Under the terms of the Police and AFCSME union contract (DPW, sewer and clerical employees), sick leave is accumulated at the rate of one day for each month of service, with a maximum accumulation of 60 days. Employees who have accumulated more than 60 days will not be allowed additional accumulation. Upon retirement or death, employees will be paid out 100% of days accumulated up to a maximum of 60 days.

As a result of separation for any other reason, the employees will lose all accumulated sick leave.

City management personnel earn sick leave at a rate of eight hours per month of service. All unused sick time is paid out, generally in November of each year, at 50% of the employee's current rate of pay.

Vacation leave is earned based on the following schedule for all employees:

Vacation Schedule for Office and Professional Employees

- 10 days after 1 year of continuous service
- 15 days after 7 years of continuous service
- 20 days after 14 years of continuous service
- 25 days after 20 years of continuous service
- 30 days after 25 years of continuous service

Vacation Schedule for Department Heads

- 10 days upon initial employment with the City
- 15 days after 3 years of continuous service
- 20 days after 10 years of continuous service
- 25 days after 20 years of continuous service
- 30 days after 25 years of continuous service

No more than 50% of an employee's annual vacation leave may be carried over to the next employment year and no accumulation is allowed beyond six weeks of annual leave.

The accumulated sick and vacation pay liability is \$992,231 at June 30, 2011. Accrued compensated absences are generally liquidated by general fund for governmental activities, water and sewer fund for business-type activities, and EDC, DDA, and Bayliss Public Library for component units.

NOTE 7 - PROPERTY TAXES

City property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are transferred to Chippewa County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

The taxable value of real and personal property located in the City at December 31, 2010 totaled \$291,091,476. The tax levy for that year was based on the following rates:

	<u>Millage Rate Used</u>
General Operating	16.8139
Police/Fire Pension	3.7147
Library	.8000
Solid Waste	.6298

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's current liability and property insurance is through Municipal Underwriters of Michigan representing Gulf Insurance Group.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 5.99% to 8.58% of annual covered payroll. City employees currently make no contributions to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Cost

For the year ended June 30, 2011, the City’s annual pension cost of \$325,867 for MERS was equal to the City’s required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.5% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the last actuarial valuation, was 28 years.

Three-year Trend Information			
Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 167,970	100%	0
2010	233,964	100%	0
2011	325,867	100%	0

FIRE AND POLICE DEPARTMENT PENSION AND RETIREMENT PLAN (ACT 345)

Plan Description

The City of Sault Ste. Marie contributes to the City of Sault Ste. Marie Firemen and Policemen Retirement System (the “Retirement System”), which is based on Act No. 345 of the Public Acts of 1937, as amended. The Retirement System is a single employer, contributory defined benefit pension plan (the “Plan”). The City of Sault Ste. Marie is the Administrator of the Plan. Administrative costs of the Plan are financed through investment earnings. The Plan is included as a pension trust fund in the City’s financial statements and a stand alone financial report of the Plans has not been issued.

Substantially, all full-time Fire and Police Department employees are eligible to participate in the Retirement System. Benefits vest after ten years of service. Fire Department employees who retire at age 50 with 25 or more years of service or age 60 regardless of years of service are entitled to retirement benefits equal to 2.8% of three-year average final compensation times the first 25 years of credited service plus 1% of average final compensation for year years in excess of 25 years of service. Police patrol employees who retire with 20 or more years of services or age 60, regardless of years of service are entitled to retirement benefits equal to 2.8% of three-year average final compensation times first 25 years of service with a maximum of 70% of average final compensation. Police sergeants hired after July 1, 2002 who retire with 25 or more years service regardless of age or age 60 regardless of service are entitled to a straight life pension equal to 2.8% of three-year average final compensation times year of service with a maximum of 75% average final compensation (Plan B). Police sergeants hired prior to July 1, 2002 are entitled to Plan B as described above or retirees with 20 or more years of service regardless of age or age 60 regardless of service are entitled to straight life pension equal to 2.6% of three-year average compensation times the first 25 years of service plus 1% of average final compensation times years of service in excess of 25 years with a maximum of 80% average final compensation.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

A post retirement benefit increase of 2% and 1% respectively, times the number of full years retired for persons retired prior and subsequent to July 1, 1976 respectively, was made effective July 1, 1988. The Plan does not include provisions for other early retirement. Mandatory retirement occurs at age 65.

The Retirement System also provides death and disability benefits, which is computed in the same manner as the retirement benefit at age 55, reduced to 1.5% of average final compensation for non-duty disability benefit is 50% of average final compensation.

If an employee terminated his or her employment with the Police or Fire Departments and is not eligible for any other benefits under the Plan, the employee is entitled to receive a refund of his or her accumulated contribution plus interest.

Membership consisted of the following at June 30, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	55
Terminated plan members entitled to, but not yet receiving, benefits	1
Active plan members	<u>44</u>
Total	<u>100</u>
Number of participating employers	1

Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. The City's contributions to the Plan are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments

Investments are reported at fair value which is determined using selected bases as follows: short-term investments are reported at cost, which approximates fair value; securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; investments that do not have established fair values are reported at estimated fair value; and cash deposits are reported at carrying amounts which reasonable estimates fair value.

Investments representing 5% or more of the Plan's assets available for benefits are as follows at June 30, 2011:

Pimco Total Return Fund	\$ 1,366,181
IShares Trust S&P 500	1,749,268
IShares TR Russell 1000	1,141,196
IShares TR S&P 100 Index	1,105,369
Pimco All Asset INSTL CL	634,264
Natixis Gateway Y	861,374

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Funding Policy

Covered employees contribute 5.6% (Firefighters and Police Sergeants) to 7.5% (Police Patrol) of their annual compensation. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by statute.

Annual Pension Cost

The Plan's annual pension cost of \$1,069,760 was equal to the Plan's required and actual contributions for the current year.

The annual required contribution for the current year was determined as part of a June 30, 2010 Actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 8.8% to 5.2% per year. Both (a) and (b) included an inflation component of 5.00%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010 was 27 years.

Three-year Trend Information			
Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 876,985	100%	0
2010	921,352	100%	0
2011	1,069,760	100%	0

BAYLISS PUBLIC LIBRARY – COMPONENT UNIT

The Bayliss Public Library participates in a statewide government agent multiple-employer public employee pension plan which covers substantially all employees of the Library.

Plan Description

The Library contributes to the Michigan Municipal Retirement System, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. All full-time employees become a member of the System on the first day of employment, and are completely vested after 10 years of service. Service retirement allowances are based upon percentages ranging from 1 to 2.5 percent of 3 to 5-year final average compensation depending on benefit program selected social security coverage, etc. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2010.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. 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 the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Library’s personnel policy, which requires employees to contribute to the plan. The Library is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at December 31, 2011 is as follows:

General	0%
---------	----

Annual Pension Cost

During the fiscal year ended June 30, 2011, the Library’s contributions totaling \$0 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2010. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level of percentage of payroll contributions (from entry age to retirement) required to accumulate sufficient assets at the member’s retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2009	\$ -	0%	0
2010	-	0%	0
2011	-	0%	0

NOTE 10 - SEGMENT INFORMATION – ENTERPRISE FUND

Segment information for the year ended June 30, 2011 is as follows:

	Water and Sewer
Nonoperating revenue (expense)	\$ 1,481,982
Operating income (loss)	1,743,175
Changes in net assets	2,371,506
Operating revenues	6,180,944
Operating expenses	4,437,769
Operating transfers – net	(2,553,945)
Depreciation	1,144,088
Total assets	53,183,090
Current liabilities	2,706,484
Long-term debt payable	29,557,108
Beginning net assets	18,547,992
Ending net assets	20,919,498
Cash provided by:	
Operating activities	3,197,936
Noncapital financing	355,192
Capital financing	(8,611,875)
Investing	30,021
Beginning cash	10,933,599
Ending cash	5,904,873

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims will not have material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2011.

In accordance with an agreement, Chippewa County annually purchases real property taxes and delinquent special assessments (included on the tax bills), which have not been paid as of March 1st from the City. The County has recourse against the City for amounts which remain unpaid.

The City is involved in various lawsuits now pending. It is the opinion of the City and of its Commission that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions is not currently determinable.

NOTE 12 - SUBSEQUENT EVENTS

On July 12, 2011, the City sold its Chippewa County Water Supply and Sewage Disposal System Refunding Bonds (City of Sault Ste. Marie), Series 2011 (Limited Tax General Obligation) (the “Refunding Bonds”) through the County of Chippewa (the “County”), for the purpose of refinancing its 1995, 1998 and 2001 Bond issues, which were also originally sold through the County. As a result of the sale of the Refunding Bonds, the City will realize present value debt service savings of approximately \$303,753. The Net Interest Cost of the Refunding Bonds is approximately 2.94%, and the final maturity occurs on September 1, 2022.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

Net assets increased/decreased as follows:

	<u>Major Street</u>	<u>Capital Outlay</u>	<u>Water and Sewer</u>
Beginning Net Assets July 1, 2010	\$ 891,451	127,951	\$ 18,547,992
Adjustment for prior year posting errors to accounts receivable and construction in progress.	<u>(120,119)</u>	<u>(125,646)</u>	<u>1,700,294</u>
Restated Net Assets July 1, 2010	<u>\$ 771,332</u>	<u>\$ 2,305</u>	<u>\$ 20,248,286</u>

Required Supplementary Information

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 6,771,702	\$ 6,771,702	\$ 6,800,185	\$ 28,483
Special Assessments	130,375	130,375	79,004	(51,371)
Licenses & Permits	48,100	48,100	47,961	(139)
Federal Sources	333,861	1,201,629	529,645	(671,984)
State Sources	1,440,941	1,440,941	1,638,803	197,862
Charges for Services	3,135,041	3,175,041	3,258,194	83,153
Rentals	24,000	24,000	23,057	(943)
Interest Earnings	76,200	41,200	26,554	(14,646)
Other Revenue	24,000	24,000	33,786	9,786
TOTAL REVENUES	11,984,220	12,856,988	12,437,189	(419,799)
EXPENDITURES:				
Legislative:				
City Commission	50,492	52,292	57,339	(5,047)
General Government:				
City Manager	213,560	214,708	220,424	(5,716)
Finance	491,764	495,958	489,381	6,577
City Assessor	149,223	151,636	156,802	(5,166)
City Attorney	66,961	68,068	66,676	1,392
City Clerk	193,484	197,001	183,356	13,645
Human Resources	90,923	93,661	95,152	(1,491)
Cemetery	152,368	152,368	146,618	5,750
Federal Building	57,500	30,000	40,681	(10,681)
Data Processing	215,560	230,560	230,556	4
Non-Departmental	334,557	453,838	450,355	3,483
Total General Government	1,965,900	2,087,798	2,080,001	7,797
Public Safety:				
Police	2,498,228	2,579,991	2,608,181	(28,190)
SANE	96,490	96,490	91,188	5,302
P.A. 302	5,800	5,800	3,325	2,475
Stonegarden	73,920	73,920	-	73,920
Youth Alcohol	17,500	17,500	18,246	(746)
Auxiliary Police	25,300	25,300	12,691	12,609
Fire	1,300,781	1,372,544	1,378,307	(5,763)
Inspection	291,157	294,428	280,565	13,863
Planning & Development	261,697	268,910	247,106	21,804
Total Public Safety	4,570,873	4,734,883	4,639,609	95,274

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works:				
Engineering	306,166	311,335	314,716	(3,381)
Sidewalks & Alleys	154,113	154,113	108,344	45,769
Composting	147,992	147,992	145,317	2,675
City Cleanup	25,000	25,000	19,129	5,871
Airport	68,101	70,825	69,192	1,633
Industrial Park	11,050	11,050	5,151	5,899
Total Public Works	<u>712,422</u>	<u>720,315</u>	<u>661,849</u>	<u>58,466</u>
Health & Welfare:				
Ambulance	<u>1,786,906</u>	<u>1,716,906</u>	<u>1,716,437</u>	<u>469</u>
Recreation & Cultural:				
Marina	152,300	212,300	204,868	7,432
Osborn	8,500	8,500	10,135	(1,635)
Parks	360,929	360,929	366,581	(5,652)
Pullar	383,694	403,694	406,030	(2,336)
Recreation	<u>166,315</u>	<u>166,315</u>	<u>156,982</u>	<u>9,333</u>
Total Recreation & Cultural	<u>1,071,738</u>	<u>1,151,738</u>	<u>1,144,596</u>	<u>7,142</u>
Capital Outlay	<u>129,021</u>	<u>1,155,833</u>	<u>297,492</u>	<u>858,341</u>
Other Expenditures:				
Insurance & Bonds	482,700	432,700	457,932	(25,232)
General Appropriations	465,356	469,815	457,645	12,170
Community Promotions	<u>62,256</u>	<u>62,256</u>	<u>51,051</u>	<u>11,205</u>
Total Other Expenditures	<u>1,010,312</u>	<u>964,771</u>	<u>966,628</u>	<u>(1,857)</u>
TOTAL EXPENDITURES	<u>11,297,664</u>	<u>12,584,536</u>	<u>11,563,951</u>	<u>1,020,585</u>
EXCESS OF REVENUES OVER EXPENDITURES	686,556	272,452	873,238	600,786
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	193,100	189,642	200,944	11,302
Operating Transfers Out	<u>(1,101,218)</u>	<u>(1,104,068)</u>	<u>(1,025,559)</u>	<u>78,509</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (221,562)</u>	<u>\$ (641,974)</u>	48,623	<u>\$ 690,597</u>
FUND BALANCE, JULY 1			<u>2,660,421</u>	
FUND BALANCE, JUNE 30			<u>\$ 2,709,044</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Major Streets Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Special Assessments	\$ 35,000	\$ 35,000	\$ 37,692	\$ 2,692
State Sources	888,477	923,740	896,301	(27,439)
Interest & Rentals	14,200	14,200	10,209	(3,991)
Other Revenue	-	-	210	210
TOTAL REVENUES	<u>937,677</u>	<u>972,940</u>	<u>944,412</u>	<u>(28,528)</u>
EXPENDITURES:				
Public Works	<u>965,630</u>	<u>1,000,893</u>	<u>920,993</u>	<u>79,900</u>
TOTAL EXPENDITURES	<u>965,630</u>	<u>1,000,893</u>	<u>920,993</u>	<u>79,900</u>
EXCESS OF REVENUES OVER EXPENDITURES	(27,953)	(27,953)	23,419	51,372
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	19,585	19,585
Operating Transfers Out	<u>(200,940)</u>	<u>(281,190)</u>	<u>(281,186)</u>	<u>4</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (228,893)</u>	<u>\$ (309,143)</u>	(238,182)	<u>\$ 70,961</u>
FUND BALANCE, JULY 1			891,451	
Prior Period Adjustment			<u>(120,119)</u>	
FUND BALANCE, JUNE 30			<u>\$ 533,150</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Local Streets Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
Special Assessments	\$ 90,000	\$ 90,000	\$ 78,935	\$ (11,065)
State Sources	364,730	364,730	389,923	25,193
Interest & Rentals	16,500	16,500	14,971	(1,529)
TOTAL REVENUES	<u>471,230</u>	<u>471,230</u>	<u>483,829</u>	<u>12,599</u>
EXPENDITURES:				
Public Works	849,493	867,593	683,312	184,281
TOTAL EXPENDITURES	<u>849,493</u>	<u>867,593</u>	<u>683,312</u>	<u>184,281</u>
EXCESS OF REVENUES OVER EXPENDITURES	(378,263)	(396,363)	(199,483)	196,880
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	410,000	360,000	359,996	(4)
Operating Transfers Out	(128,229)	(128,229)	(144,302)	(16,073)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (96,492)</u>	<u>\$ (164,592)</u>	16,211	<u>\$ 180,803</u>
FUND BALANCE, JULY 1			<u>211,413</u>	
FUND BALANCE, JUNE 30			<u>\$ 227,624</u>	

PRIMARY GOVERNMENT

Funded Status and Funding Progress

Fire and Police Department Plan

As of June 30, 2010, the most recent actuarial valuation date, the plan was 51 percent funded. The actuarial accrued liability for benefits was \$23.4 million, and the actuarial value of assets was \$11.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$11.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.7 million and the ratio of the UAAL to the covered payroll was 429 percent.

MERS Plan

Three year trend information as of December 31st follows:

	2008	2009	2010
Actuarial Value of Assets	\$ 20,734,376	\$ 20,883,945	\$ 21,087,835
Actuarial Accrued Liability	23,333,553	23,325,780	24,418,081
Unfunded AAL	2,599,177	2,441,835	3,330,246
Funded Ratio	89%	90%	86%
Covered Payroll	3,980,934	3,726,310	3,976,589
UAAL as a Percentage of Covered Payroll	65%	66%	84%

BAYLISS PUBLIC LIBRARY – COMPONENT UNIT

Three year trend information as of December 31st follows:

	2008	2009	2010
Actuarial Value of Assets	\$ 1,213,527	\$ 1,214,532	\$ 1,228,981
Actuarial Accrued Liability	663,524	666,528	687,857
Unfunded AAL	550,003	548,004	541,124
Funded Ratio	183%	182%	179%
Covered Payroll	162,400	158,365	161,510
UAAL as a Percentage of Covered Payroll	0%	0%	0%

Other Supplementary Information

City of Sault Ste. Marie, Michigan

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

	Special Revenue Funds				Debt Service Fund	Capital Project Funds		
	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park		Other Special Revenue	Debt Service	Lakeshore Subdivision
ASSETS:								
Cash & Equivalents	\$ 205,639	\$ 63,142	\$ 100,809	\$ 3,032	\$ 552,080	\$ 360,582	\$ 5,700	\$ 65,975
Investments - Restricted	-	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	10,546	-	-
Due from Governmental Units	-	-	-	-	-	-	-	-
Special Assessments Receivable	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 205,639	\$ 63,142	\$ 100,809	\$ 3,032	\$ 552,080	\$ 371,128	\$ 5,700	\$ 65,975
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,667	\$ -	\$ -
Accounts Payable	4,156	-	-	-	1,218	-	-	1
Deferred Revenue	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	4,156	-	-	-	1,218	11,667	-	1
FUND BALANCES:								
Fund Balance:								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	201,483	63,142	100,809	3,032	-	359,461	5,700	65,974
Assigned	-	-	-	-	550,862	-	-	-
Unassigned	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES	201,483	63,142	100,809	3,032	550,862	359,461	5,700	65,974
TOTAL LIABILITIES AND FUND BALANCES	\$ 205,639	\$ 63,142	\$ 100,809	\$ 3,032	\$ 552,080	\$ 371,128	\$ 5,700	\$ 65,975

City of Sault Ste. Marie, Michigan

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2011

	Capital Project Funds							
	CSO Phase C	CSO Phase A	CSO Phase D	CSO Phase B	Public Works Building	2001 DWRP/SRF Project	City County Building	
ASSETS:								
Cash & Equivalents	\$ 1,519,704	\$ 890,208	\$ 453,793	\$ 80,423	\$ 1,663,134	\$ 162,722	\$ -	\$ 19,209
Investments - Restricted	-	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	48,229	-
Due from Governmental Units	677,157	-	-	-	-	-	-	-
Special Assessments Receivable	726,641	-	139,424	5,892	-	29,205	-	-
TOTAL ASSETS	\$ 2,923,502	\$ 890,208	\$ 593,217	\$ 86,315	\$ 1,663,134	\$ 191,927	\$ 48,229	\$ 19,209
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 458	\$ -
Accounts Payable	1,415,998	-	9,242	-	-	1,121	47,771	-
Deferred Revenue	726,641	-	139,424	5,892	-	29,205	-	-
TOTAL LIABILITIES	2,142,639	-	148,666	5,892	-	30,326	48,229	-
FUND BALANCES:								
Fund Balance:								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	890,208	444,551	80,423	1,663,134	161,601	-	19,209
Assigned	-	-	-	-	-	-	-	-
Unassigned	780,863	-	-	-	-	-	-	-
TOTAL FUND BALANCES	780,863	890,208	444,551	80,423	1,663,134	161,601	-	19,209
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,923,502	\$ 890,208	\$ 593,217	\$ 86,315	\$ 1,663,134	\$ 191,927	\$ 48,229	\$ 19,209

City of Sault Ste. Marie, Michigan

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

	Capital Project Fund	Permanent Trust Funds			Total
		Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	
	Capital Outlay				
ASSETS:					
Cash & Equivalents	\$ -	\$ 43,811	\$ 9,812	\$ 280,600	\$ 6,480,375
Investments - Restricted	-	1,567,332	940,000	52,586	2,559,918
Accounts Receivable	-	-	-	-	58,775
Due from Governmental Units	-	-	-	-	677,157
Special Assessments Receivable	-	-	-	-	901,162
TOTAL ASSETS	\$ -	\$ 1,611,143	\$ 949,812	\$ 333,186	\$ 10,677,387
LIABILITIES:					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 12,125
Accounts Payable	-	-	-	-	1,479,507
Deferred Revenue	-	-	-	-	901,162
TOTAL LIABILITIES	-	-	-	-	2,392,794
FUND BALANCES:					
Fund Balance:					
Nonspendable	-	1,611,143	949,812	333,186	2,894,141
Restricted	-	-	-	-	4,058,727
Assigned	-	-	-	-	550,862
Unassigned	-	-	-	-	780,863
TOTAL FUND BALANCES	-	1,611,143	949,812	333,186	8,284,593
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ 1,611,143	\$ 949,812	\$ 333,186	\$ 10,677,387

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2011**

	Special Revenue Funds					Debt Service Fund	Capital Project Funds	
	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park	Other Special Revenue	Debt Service	Lakeshore Subdivision	Ashmun Street Project
	REVENUES:							
Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	-	-	-	-	82,856	-	-
Local Sources	-	-	421,428	-	-	-	-	-
Charges for Services	-	-	-	-	-	-	-	-
Rentals	-	-	-	-	-	-	-	-
Interest Earnings	514	167	-	8	-	199	-	183
Other Revenue	6,338	-	-	-	69,273	63,455	-	-
TOTAL REVENUES	6,852	167	421,428	8	69,273	146,510	-	183
EXPENDITURES:								
Recreation & Cultural	24,327	12,265	40,000	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	1,029,832	-	-
Other Expenditures	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	24,327	12,265	40,000	-	-	1,029,832	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(17,475)	(12,098)	381,428	8	69,273	(883,322)	-	183
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	69,096	12,937	-	-	-	875,177	-	-
Operating Transfers Out	-	-	(326,079)	-	(312,192)	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	51,621	839	55,349	8	(242,919)	(8,145)	-	183
FUND BALANCES, JULY 1	149,862	62,303	45,460	3,024	793,781	367,606	5,700	65,791
Prior Period Adjustment	-	-	-	-	-	-	-	-
FUND BALANCES, JUNE 30	\$ 201,483	\$ 63,142	\$ 100,809	\$ 3,032	\$ 550,862	\$ 359,461	\$ 5,700	\$ 65,974

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2011**

	Capital Project Funds							
	CSO Phase C	CSO Phase A	CSO Phase D	CSO Phase B	Public Works Building	2001 DWRP/SRF Project	City County Building	
REVENUES:								
Special Assessments	\$ 94,412	\$ -	\$ 57,889	\$ 11,503	\$ -	\$ 15,005	\$ -	\$ -
Federal Sources	11,250	-	-	-	-	-	-	-
Local Sources	-	-	-	-	-	-	20,900	-
Charges for Services	-	-	-	-	-	-	-	-
Rentals	-	-	-	-	-	-	78,835	-
Interest Earnings	11,746	2,508	1,087	229	-	494	-	-
Other Revenue	-	-	-	-	-	-	-	-
TOTAL REVENUES	117,408	2,508	58,976	11,732	-	15,499	99,735	-
EXPENDITURES:								
Recreation & Cultural	-	-	-	-	-	-	-	-
Capital Outlay	1,870,862	3,567	95,242	-	-	-	269,597	-
Debt Service	-	-	-	-	-	-	-	-
Other Expenditures	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	1,870,862	3,567	95,242	-	-	-	269,597	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,753,454)	(1,059)	(36,266)	11,732	-	15,499	(169,862)	-
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	3,906,041	-	-	-	-	-	134,362	-
Operating Transfers Out	(2,124,934)	-	(71,700)	-	-	(24,000)	(35,500)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	27,653	(1,059)	(107,966)	11,732	-	(8,501)	(71,000)	-
FUND BALANCES, JULY 1	753,210	891,267	552,517	68,691	1,663,134	170,102	71,000	19,209
Prior Period Adjustment	-	-	-	-	-	-	-	-
FUND BALANCES, JUNE 30	\$ 780,863	\$ 890,208	\$ 444,551	\$ 80,423	\$ 1,663,134	\$ 161,601	\$ -	\$ 19,209

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2011**

	Capital Project Fund	Permanent Trust Funds			Totals
	Capital Outlay	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	
REVENUES:					
Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ 178,809
Federal Sources	-	-	-	-	94,106
Local Sources	-	-	-	-	442,328
Charges for Services	-	-	-	7,586	7,586
Rentals	-	-	-	-	78,835
Interest Earnings	718	25,942	4,750	3,175	51,720
Other Revenue	-	-	-	-	139,066
TOTAL REVENUES	718	25,942	4,750	10,761	992,450
EXPENDITURES:					
Recreation & Cultural	-	-	-	-	76,592
Capital Outlay	38,278	-	-	-	2,277,546
Debt Service	-	-	-	-	1,029,832
Other Expenditures	-	1,000	1,000	-	2,000
TOTAL EXPENDITURES	38,278	1,000	1,000	-	3,385,970
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(37,560)	24,942	3,750	10,761	(2,393,520)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	46,922	-	-	-	5,044,535
Operating Transfers Out	(11,667)	(59,096)	(9,146)	(566)	(2,974,880)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(2,305)	(34,154)	(5,396)	10,195	(323,865)
FUND BALANCES, JULY 1	127,951	1,645,297	955,208	322,991	8,734,104
Prior Period Adjustment	(125,646)	-	-	-	(125,646)
FUND BALANCES, JUNE 30	\$ -	\$ 1,611,143	\$ 949,812	\$ 333,186	\$ 8,284,593

**Combining Statement of Net Assets
Internal Service Funds
June 30, 2011**

	Information Systems	Stock & Equipment	Employee Health Insurance	Totals
ASSETS:				
Cash & Equivalents - Unrestricted	\$ 256,395	361,095	\$ 285,977	\$ 903,467
Cash & Equivalents - Restricted	-	106,590	-	106,590
Accounts Receivable	-	12,116	-	12,116
Inventories	3,000	110,358	-	113,358
Other Assets	-	-	58,500	58,500
Capital Assets (Net of Accumulated Depreciation)	366,474	1,069,771	-	1,436,245
TOTAL ASSETS	\$ 625,869	\$ 1,659,930	\$ 344,477	\$ 2,630,276
LIABILITIES:				
Accounts Payable	\$ 7,072	\$ 30,420	\$ -	\$ 37,492
Accrued Liabilities	5,378	39,823	59,995	105,196
Compensated Absences	3,783	28,535	-	32,318
TOTAL LIABILITIES	16,233	98,778	59,995	175,006
NET ASSETS:				
Investment in Capital Assets	366,474	1,069,771	-	1,436,245
Restricted	-	106,590	-	106,590
Unrestricted	243,162	384,791	284,482	912,435
TOTAL NET ASSETS	609,636	1,561,152	284,482	2,455,270
TOTAL LIABILITIES AND NET ASSETS	\$ 625,869	\$ 1,659,930	\$ 344,477	\$ 2,630,276

City of Sault Ste. Marie, Michigan

**Combining Statement of Revenues, Expenses and
Changes in Net Assets - Internal Service Funds
For the Year Ended June 30, 2011**

	<u>Information Systems</u>	<u>Stock & Equipment</u>	<u>Employee Health Insurance</u>	<u>Totals</u>
OPERATING REVENUES:				
Charges for Services	\$ 401,292	\$ 1,307,768	\$ 1,587,889	\$ 3,296,949
Other Revenue	-	27,601	-	27,601
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OPERATING REVENUES	401,292	1,335,369	1,587,889	3,324,550
	<hr/>	<hr/>	<hr/>	<hr/>
OPERATING EXPENSES:				
Personnel	123,372	454,963	-	578,335
Supplies	16,497	439,995	-	456,492
Contracted Services	3,925	45,746	-	49,671
Utilities	7,242	62,315	-	69,557
Repair & Maintenance	76,982	136,116	-	213,098
Insurance	-	25,600	1,401,594	1,427,194
Depreciation	112,317	299,964	-	412,281
Other	10,057	52,770	-	62,827
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	350,392	1,517,469	1,401,594	3,269,455
	<hr/>	<hr/>	<hr/>	<hr/>
OPERATING INCOME (LOSS)	50,900	(182,100)	186,295	55,095
	<hr/>	<hr/>	<hr/>	<hr/>
NON-OPERATING REVENUES (EXPENSES):				
Interest on Deposits	-	1,106	344	1,450
	<hr/>	<hr/>	<hr/>	<hr/>
Total Nonoperating Revenues	-	1,106	344	1,450
	<hr/>	<hr/>	<hr/>	<hr/>
(Loss) Income Before Transfers	50,900	(180,994)	186,639	56,545
	<hr/>	<hr/>	<hr/>	<hr/>
Transfers				
Operating Transfers In	-	50,055	-	50,055
Operating Transfers Out	-	(176,000)	-	(176,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Transfers	-	(125,945)	-	(125,945)
	<hr/>	<hr/>	<hr/>	<hr/>
CHANGES IN NET ASSETS	50,900	(306,939)	186,639	(69,400)
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS, JULY 1	558,736	1,868,091	97,843	2,524,670
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS, JUNE 30	<u>\$ 609,636</u>	<u>\$ 1,561,152</u>	<u>\$ 284,482</u>	<u>\$ 2,455,270</u>

**Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2011**

	Information Systems	Stock & Equipment	Employee Health Insurance	Total
Cash Flows From Operating Activities:				
Cash Received from Customers or Users	\$ 401,292	\$ 1,343,846	\$ 1,712,759	\$ 3,457,897
Cash Payments to Vendors	(116,048)	(709,847)	(1,427,126)	(2,253,021)
Cash Paid to Employees	(121,156)	(442,022)	-	(563,178)
Net Cash Provided (Used) By Operating Activities	<u>164,088</u>	<u>191,977</u>	<u>285,633</u>	<u>641,698</u>
Cash Flows From Non-Capital Financing Activities:				
Operating Transfers In	-	50,055	-	50,055
Operating Transfers (Out)	-	(176,000)	-	(176,000)
Net Cash Provided (Used) for Non-Capital Financing Activities	<u>-</u>	<u>(125,945)</u>	<u>-</u>	<u>(125,945)</u>
Cash Flows From Capital and Related Financing Activities:				
Purchase of Property and Equipment	(58,092)	(57,019)	-	(115,111)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(58,092)</u>	<u>(57,019)</u>	<u>-</u>	<u>(115,111)</u>
Cash Flows From Investing Activities:				
Interest Income	-	1,106	344	1,450
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>1,106</u>	<u>344</u>	<u>1,450</u>
Net Increase (Decrease) in Cash	105,996	10,119	285,977	402,092
Cash and Cash Equivalents at Beginning of Year	150,399	457,566	-	607,965
Cash and Cash Equivalents at End of Year	<u>\$ 256,395</u>	<u>\$ 467,685</u>	<u>\$ 285,977</u>	<u>\$ 1,010,057</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income	\$ 50,900	\$ (182,100)	\$ 186,295	\$ 55,095
Add Non-Cash Expenses:				
Depreciation	112,317	299,964	-	412,281
Changes in Assets and Liabilities:				
Decrease (Increase) in Assets:				
Receivables	-	8,477	-	8,477
Inventory	(3,000)	52,105	-	49,105
Other Assets	-	-	124,870	124,870
Increase (Decrease) in Liabilities:				
Due to Other Funds	-	-	(31,308)	(31,308)
Accounts Payable	1,655	590	-	2,245
Accrued Liabilities	440	9,184	5,776	15,400
Compensated Absences	1,776	3,757	-	5,533
Net Cash Provided (Used) By Operating Activities	<u>\$ 164,088</u>	<u>\$ 191,977</u>	<u>\$ 285,633</u>	<u>\$ 641,698</u>

**Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2011**

	Parking	Sewer Plant Equip. Replacement	Water Equip. Replacement	Totals
ASSETS:				
Cash & Equivalents - Unrestricted	\$ 47,395	\$ 974,218	\$ 256,881	\$ 1,278,494
Cash & Equivalents - Restricted	30,549	-	-	30,549
Capital Assets (Not Depreciated)	199,278	-	-	199,278
Capital Assets (Net of Accumulated Depreciation)	51,389	-	-	51,389
 TOTAL ASSETS	 \$ 328,611	 \$ 974,218	 \$ 256,881	 \$ 1,559,710
 LIABILITIES:				
Accounts Payable	\$ 1,265	\$ -	\$ -	\$ 1,265
Accrued Liabilities	2,592	-	-	2,592
Compensated Absences	10,351	-	-	10,351
 TOTAL LIABILITIES	 14,208	 -	 -	 14,208
 NET ASSETS:				
Invested in Capital Assets	250,667	-	-	250,667
Restricted	30,549	-	-	30,549
Unrestricted	33,187	974,218	256,881	1,264,286
 TOTAL NET ASSETS	 314,403	 974,218	 256,881	 1,545,502
 TOTAL LIABILITIES AND NET ASSETS	 \$ 328,611	 \$ 974,218	 \$ 256,881	 \$ 1,559,710

City of Sault Ste. Marie, Michigan

**Combining Statement of Revenues, Expenses and
Changes in Net Assets - Nonmajor Enterprise Funds
For the Year Ended June 30, 2011**

	Parking	Sewer Plant Equip. Replacement	Water Equip. Replacement	Totals
OPERATING REVENUES:				
Charges for Services	\$ 207,672	\$ -	\$ -	\$ 207,672
TOTAL OPERATING REVENUES	<u>207,672</u>	<u>-</u>	<u>-</u>	<u>207,672</u>
OPERATING EXPENSES:				
Personnel	109,198	-	-	109,198
Supplies	6,138	-	-	6,138
Repairs & Maintenance	703	-	-	703
Contracted Services	11,810	-	-	11,810
Insurance	4,500	-	-	4,500
Parking Lot Expenses	62,895	-	-	62,895
Depreciation	5,129	-	-	5,129
Total Operating Expenses	<u>200,373</u>	<u>-</u>	<u>-</u>	<u>200,373</u>
OPERATING INCOME (LOSS)	7,299	-	-	7,299
NON-OPERATING REVENUES (EXPENSES):				
Interest Income	130	1,537	510	2,177
Total Non-Operating Revenues (Expenses)	<u>130</u>	<u>1,537</u>	<u>510</u>	<u>2,177</u>
Income (Loss) Before Transfers	7,429	1,537	510	9,476
Transfers				
Operating Transfers In	50,000	92,000	65,425	207,425
Operating Transfers Out	-	(54,007)	(177,100)	(231,107)
Total Transfers	<u>50,000</u>	<u>37,993</u>	<u>(111,675)</u>	<u>(23,682)</u>
CHANGES IN NET ASSETS	57,429	39,530	(111,165)	(14,206)
NET ASSETS, JULY 1	<u>256,974</u>	<u>934,688</u>	<u>368,046</u>	<u>1,559,708</u>
NET ASSETS, JUNE 30	<u>\$ 314,403</u>	<u>\$ 974,218</u>	<u>\$ 256,881</u>	<u>\$ 1,545,502</u>

**Nonmajor Enterprise Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2011**

	Parking	Sewer Plant Equip Replacement	Water Equipment Replacement	Totals
Cash Flows From Operating Activities:				
Cash Received from Customers or Users	\$ 207,672	\$ -	\$ -	\$ 207,672
Cash Payments to Vendors	(91,014)	-	-	(91,014)
Cash Paid to Employees	(114,564)	-	-	(114,564)
Net Cash Provided (Used) by Operating Activities	2,094	-	-	2,094
Cash Flows From Non-Capital Financing Activities:				
Operating Transfers In	50,000	92,000	65,425	207,425
Operating Transfers (Out)	-	(54,007)	(177,100)	(231,107)
Net Cash Provided (Used) by Non-Capital Financing Activities	50,000	37,993	(111,675)	(23,682)
Cash Flows From Capital and Related Financing Activities:				
Purchase of Property and Equipment	(26,570)	-	-	(26,570)
Net Cash Provided (Used) by Capital and Related Financing Activities	(26,570)	-	-	(26,570)
Cash Flows from Investing Activities:				
Interest Income	130	1,537	510	2,177
Net Cash Provided (Used) by Investing Activities	130	1,537	510	2,177
Net Increase (Decrease) in Cash	25,654	39,530	(111,165)	(45,981)
Cash and Cash Equivalents at Beginning of Year	52,290	934,688	368,046	1,355,024
Cash and Cash Equivalents at End of Year	\$ 77,944	\$ 974,218	\$ 256,881	\$ 1,309,043
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income	\$ 7,299	\$ -	\$ -	\$ 7,299
Add Non-Cash Expenses:				
Depreciation	5,129	-	-	5,129
Increase (Decrease) in Liabilities:				
Accounts Payable	(4,968)	-	-	(4,968)
Accrued Liabilities	(310)	-	-	(310)
Compensated Absences	(5,056)	-	-	(5,056)
Net Cash Provided (Used) by Operating Activities	\$ 2,094	\$ -	\$ -	\$ 2,094

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA

**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

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

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sault Ste. Marie, Michigan as of and for the year ended June 30, 2011, which collectively comprise the City of Sault Ste. Marie, Michigan's basic financial statements and have issued our report thereon, dated December 8, 2011. 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 the City of Sault Ste. Marie's, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Honorable Mayor and Members
of the City Commission

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting, listed as 11-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sault Ste. Marie, Michigan'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 material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Sault Ste. Marie, Michigan in a separate letter dated December 8, 2011.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 8, 2011



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH *OMB CIRCULAR A-133***

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie, Michigan

Compliance

We have audited the City of Sault Ste. Marie, Michigan's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Sault Ste. Marie, Michigan's major federal programs for the year ended June 30, 2011. The City of Sault Ste. Marie, Michigan'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's management. Our responsibility is to express an opinion on the City'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. 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'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 of the City's compliance with those requirements.

In our opinion, the City of Sault Ste. Marie, Michigan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Honorable Mayor and Members
of the City Commission

Internal Control Over Compliance

Management of the City of Sault Ste. Marie, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sault Ste. Marie, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses* as defined above.

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 8, 2011

City of Sault Ste. Marie, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF COMMERCE:			
<i>Pass-through programs from the Michigan Department of Natural Resources</i>			
Coastal Zone Management - Water Street	11.419	09D-11.03	\$ 11,250
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
<i>Pass-through programs from the Michigan Department of Economic Development</i>			
Community Development Block Grant (CDBG)	14.228	MSC 2006-734-NPP	216,218
U.S. DEPARTMENT OF JUSTICE:			
<i>Pass-through programs from the Michigan Department of Community Health</i>			
S.A.N.E. Safe Trails	16.738	N/A	3,815
S.A.N.E. 10/1/10 to 9/30/11	16.738	2010 DJ BX 0003	31,355
Subtotal S.A.N.E.			35,170
<i>Pass-through programs from the Michigan Department of State Police</i>			
Vests	16.607	1121-0235	2,165
Total U.S. Department of Justice			37,335
U.S. DEPARTMENT OF TRANSPORTATION:			
<i>Pass-through programs from the Michigan Department of Transportation</i>			
Highway Research Planning & Construction - ARRA	20.205	ARRA-1017	160,674
Subtotal HRP&C			160,674
Section 5309 Transit Capital Investment	20.500	2002-0084-Z11	9,950
Section 5309 Transit Capital Investment	20.500	2007-0287 Z6	114,587
Subtotal Section 5309			124,537
Section 5311 Operating Assistance	20.509	2007-0287	17,973
Section 5311 Operating Assistance	20.509	07-0287/Z10	16,415
Section 5311 Operating Assistance	20.509	07-0287/Z12	20,632
Section 5311 Operating Assistance	20.509	07-0287/Z14	30,496
Subtotal Section 5311			85,516
Job Access Reverse Commute Program	20.516	2007-287/Z9	9,431
Subtotal - Pass-Through from MDOT			380,158
<i>Pass-through programs from the Michigan Department of State Police</i>			
Alcohol Traffic Safety and Drunk Driving Incentive Grant	20.601	AL-09-01	6,040
Alcohol Traffic Safety and Drunk Driving Incentive Grant	20.601	AL-11-28	12,481
Subtotal - Pass-Through from MDSP			18,521
Total U.S. Department of Transportation			398,679
U.S. ENVIRONMENTAL PROTECTION AGENCY:			
<i>Pass-through programs from the Michigan Department of Natural Resources & Environment</i>			
State Revolving Fund - CSO Phase C - ARRA	66.458	N/A	950,599

See accompany notes to schedule of expenditures of federal awards.

City of Sault Ste. Marie, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF ENERGY:			
<i>Pass-through programs from the Michigan Department of Energy, Labor & Economic Growth</i>			
Boiler Grant	81.128	BES-10-109	125,346
U.S. DEPARTMENT OF HOMELAND SECURITY:			
<i>Pass-through programs from the Michigan Department of State Police Emergency Management Division</i>			
Port Security Grant Program	97.004	2007-GB-T7-0124	8,418
Stonegarden	97.004	N/A	1,162
Assistance to Firefighters Grant	97.044	EMW-2009-FO-06844	31,941
Assistance to Firefighters Grant	97.044	FO080744FFS	4,984
Total U.S. Department of Homeland Security			46,505
Total Expenditures of Federal Awards			\$ 1,785,932

See accompany notes to schedule of expenditures of federal awards.

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Sault Ste. Marie, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The City has not been assigned a cognizant agency. Therefore, the City is under the general oversight of the U.S. Environmental Protection Agency which provided the greatest amount of indirect federal funding to the City during fiscal year 2011.

NOTE C - RECONCILIATION TO BASIC FINANCIAL STATEMENTS:

The following is a reconciliation of the amounts reported on the basic financial statements to the schedule of expenditures of federal awards:

Total Federal per Financial Statements	
Revenues - Primary Government	\$ 3,824,010
Less: Interest Subsidy	(222,667)
Less: Debt Forgiveness from State Revolving Fund	<u>(1,815,411)</u>
Total Federal Revenue Recognized per Schedule of Expenditures of Federal Awards	<u>\$ 1,785,932</u>

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
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?	No

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

66.458	State Revolving Fund - ARRA
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

Internal Control Over Financial Reporting

Significant Deficiencies

Preparation of the Financial Statements in Accordance
with Generally Accepted Accounting Principles

Finding 11-1

Condition: As part of the audit process, the City, like many other governments, has historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally. The City requires the assistance of the independent auditors to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements rests with the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect: The City relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the City's internal controls. By definition, independent auditors cannot be part of the City's internal controls.

Cause: Change in application of auditing standards.

Recommendation: We recommend the City consider providing applicable employees with training that would allow them to attain the qualification required to fully understand the GAAP financial statements preparation process. Should the City choose not to address this issue, management and the Board of Commissioners should realize that an increased risk is present.

This recommendation is not intended to imply that the City's contractual arrangement with the independent auditors, which includes preparation of the financial statements, is improper or should be changed. SAS 115 does not require that management actually prepare the financial statements, but it requires the independent auditors to comment when the applicable internal controls are not in place.

Section II – Financial Statement Findings (Continued)

Internal Control Over Financial Reporting (Continued)

Planned Corrective Action: Historically it has been the practice for the independent auditors of the City of Sault Ste. Marie to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements. Prior to the 2007 audit, this was not considered a material weakness or deficiency in internal controls of the City in any way. Management was not required to obtain all of the specific training to create the details of such reports and relied on the auditors for this process.

As recommended, the City Treasurer and City Manager will now seek to obtain, through education and communications, specific knowledge that was not considered a deficiency prior to SAS 115 to advise the City Commission of options available to address the deficiency. The City Commission will need to evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP or outsourcing this task to its external auditors in determining the best interests of the City.

- Contact Person(s) Responsible for Correction:
Spencer R. Nebel – City Manager

Status: Unchanged.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.

Additional Information

CITY OF SAULT STE. MARIE, MICHIGAN

ADDITIONAL INFORMATION

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT ON ADDITIONAL INFORMATION	82
Note 1 - Debt Issues Applicable to SEC Rule 15c2-12	
Disclosure Requirements	83
Note 2 - Tables:	
Population	84
Taxable Value	84
Taxable Value by Use and Class.....	85
Percent of Total Taxable Value by Use and Class.....	85
State Equalized Value.....	86
SEV by Use and Class	86
Percent of Total SEV by Use and Class.....	87
Maximum Tax Rates	87
Tax Abatement.....	87
Property Tax Rates	88
Principal Residence (1) Property Tax Rates by Governmental Unit	89
Non-Principal Residence (1) Property Tax Rates by Governmental Unit	89
Property Tax Collections	90
Profile of the Ten Largest Taxpayers.....	91
Legal Debt Margin.....	91
Debt Statement.....	92
Revenues From the State of Michigan.....	94
General Pension System	94
Police and Fire Pension System	95
Labor Contracts.....	95
Profile of Major Employers.....	96
Employment.....	96



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA

**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie, Michigan

Our report on our audit of the basic financial statements of the City of Sault Ste. Marie, Michigan, as of and for the year ended June 30, 2011, appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 8, 2011

**NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES
REQUIREMENTS:**

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2011, the City has the following debt issues which apply to SEC Rule 15c2-12.

1. \$3,819,699 State Revolving Fund CSO Loan.
2. \$3,040,000 County of Chippewa Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds (City of Sault Ste. Marie).
3. \$3,820,000 State Revolving Fund CSO Loan.
4. \$4,155,000 State Drinking Water Revolving Fund Loan.
5. \$2,715,000 County of Chippewa Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds (City of Sault Ste. Marie).
6. \$2,600,000 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds.
7. \$3,390,000 2002 General Obligation Unlimited Tax Refunding Bonds (Water Treatment Plant).
8. \$1,790,607 State Drinking Water Revolving Loan Fund.
9. \$3,475,000 County of Chippewa Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds (City of Sault Ste. Marie).
10. \$3,385,000 State Revolving Fund CSO Loan.
11. \$3,135,000 State Drinking Water Revolving Loan Fund.
12. \$6,000,000 Downtown Development Authority Parking Deck Bonds.
13. \$1,500,000 General Obligation Bonds.
14. \$7,870,000 County of Chippewa Water Supply & Sewage Disposal System Limited Tax General Obligation Bonds (City of Sault Ste. Marie).
15. \$7,955,000 State Revolving fund CSO Loan, reduced by ARRA principal forgiveness to \$5,189,000.
16. \$4,490,000 LTGO Build America Bonds.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12.

Population:

1960 U.S. Census	18,722	1990 U.S. Census	14,689
1970 U.S. Census	15,136	2000 U.S. Census	14,483
1980 U.S. Census	14,448	2010 U.S. Census	14,144

Source: U.S. Department of Commerce - Bureau of Census

**City of Sault Ste. Marie
Taxable Value
Fiscal Years Ended or Ending June 30, 2008 Through 2012**

<u>Assessed Value as of December 31</u>	<u>Year of State Equalization and Tax Levy</u>	<u>City's Fiscal Year Ended or Ending June 30</u>	<u>Ad Valorem Taxable Value</u>	<u>Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (1)</u>	<u>Total Taxable Value</u>	<u>Percent Change</u>
2006	2007	2008	\$ 276,959,177	\$ 2,132,000	\$ 279,091,177	2.80%
2007	2008	2009	279,655,069	2,214,100	281,869,169	1.00%
2008	2009	2010	286,621,222	1,888,650	288,509,872	2.36%
2009	2010	2011	291,102,331	1,877,152	292,979,483	1.55%
2010	2011	2012	294,813,921	1,151,300	295,965,221	1.02%

Per Capita Total Taxable Value for the Fiscal Year Ended June 30, 2011 (2).....\$20,925.14

- (1) At the full tax rate
- (2) Based on the City's 2010 population of 14,144.
- (3) Total taxable value in 2010 includes 3 properties owned by the DNR in the amount of \$11,039, for which taxable value was frozen at the 2004 tax rate.

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

**City of Sault Ste. Marie
Total Taxable Value By Use and Class
Fiscal Years Ended or Ending June 30, 2008 Through 2012**

Use	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Commercial	\$ 104,202,036	\$ 100,671,057	\$ 103,192,494	\$ 108,617,553	\$ 110,712,184
Industrial	17,254,820	19,476,911	19,634,550	19,623,735	18,626,800
Residential/Ag.	150,339,021	155,092,701	158,793,528	157,741,195	159,521,637
Utility	7,295,300	6,628,500	6,889,300	6,997,000	7,104,600
Total	\$ 279,091,177	\$ 281,869,169	\$ 288,509,872	\$ 292,979,483	\$ 295,965,221
Class	2008	2009	2010	2011	2012
Real Property	\$ 254,160,277	\$ 257,989,369	\$ 264,250,122	\$ 266,952,433	\$ 271,401,221
Personal Property	24,930,900	23,879,800	24,259,750	26,027,050	24,564,000
Total	\$ 279,091,177	\$ 281,869,169	\$ 288,509,872	\$ 292,979,483	\$ 295,965,221

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Percent of Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2008 Through 2012**

Use	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Commercial	37.34%	35.72%	35.77%	37.07%	37.41%
Industrial	6.18%	6.91%	6.80%	6.70%	6.29%
Residential/Ag.	53.87%	55.02%	55.04%	53.84%	53.9%
Utility	2.61%	2.35%	2.39%	2.39%	2.4%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Class	2008	2009	2010	2011	2011
Real Property	91.07%	91.53%	91.59%	91.12%	91.7%
Personal Property	8.93%	8.47%	8.41%	8.88%	8.3%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

**City of Sault Ste. Marie
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2008 Through 2012**

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Year Ended or Ending June 30	Ad Valorem SEV	SEV of Property Granted Tax Abatement Under Acts 198 and 255 (1)	Total Value	Percent Change
2006	2007	2008	\$ 309,254,500	\$ 4,264,000	\$ 313,518,500	1.50%
2007	2008	2009	310,535,249	4,428,200	314,963,449	0.46%
2008	2009	2010	310,236,700	3,777,300	314,014,000	-0.30%
2009	2010	2011	312,815,200	3,765,800	316,581,000	0.81%
2010	2011	2012	315,424,900	2,302,600	317,727,500	0.36%

Per Capita Total SEV for the Fiscal Year Ending June 30, 2011 (1) \$22,463.77

(1) Based on the City's 2010 Census population of 14,144.

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2008 Through 2012**

Use	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Commercial	\$ 110,207,500	\$ 108,482,100	\$ 109,341,000	\$ 114,682,400	\$ 116,134,100
Industrial	19,395,400	19,756,400	21,523,200	21,548,100	19,778,100
Residential/Ag.	176,620,300	180,096,449	176,260,500	173,353,500	174,710,700
Utility	7,295,300	6,628,500	6,889,300	6,997,000	7,104,600
Total	\$ 313,518,500	\$ 314,963,449	\$ 314,014,000	\$ 316,581,000	\$ 317,727,500
Class	2008	2009	2010	2011	2012
Real Property	\$ 288,199,600	\$ 290,748,949	\$ 289,717,700	\$ 290,519,700	\$ 293,128,400
Personal Property	25,318,900	24,214,500	24,296,300	26,061,300	24,599,100
Total	\$ 313,518,500	\$ 314,963,449	\$ 314,014,000	\$ 316,581,000	\$ 317,727,500

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

**City of Sault Ste. Marie
Percent of Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2008 Through 2012**

Use	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Commercial	35.15%	34.44%	34.82%	36.22%	36.55%
Industrial	6.19%	6.27%	6.85%	6.81%	6.22%
Residential/Ag.	56.33%	57.18%	56.13%	54.76%	54.99%
Utility	2.33%	2.11%	2.20%	2.21%	2.24%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Class	2008	2009	2010	2011	2012
Real Property	91.92%	92.31%	92.26%	91.77%	92.26%
Personal Property	8.08%	7.69%	7.74%	8.23%	7.74%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Maximum Tax Rates
Fiscal Year Ending June 30, 2011**

Millage Classification	Millage Authorized	Millage Reduction Fraction (1)	Maximum Allowable Millage
Operating	20.0000	0.840695	16.8139
Refuse Collection and Disposal	3.0000	0.840695	2.5221
Library	1.0000	0.840695	0.8407

(1) Cumulative.

Source: City of Sault Ste. Marie

Tax Abatement

The City's Taxable Value does not include the value of certain facilities which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198 or Act 255 (the "Acts"). The Acts were designed to provide a stimulus in the form of significant tax incentives to industry and commercial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Acts, a local governmental unit (i.e., a city, village, or township) may establish plant rehabilitation districts, industrial development districts, and commercial redevelopment districts and offer industrial and commercial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

NOTE 2 - TABLES: (Continued)

An industrial or commercial facilities exemption certificate granted under either of the Acts entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay industrial facilities or commercial facilities tax (the “IFT Tax” and “CFT Tax”, respectively). For properties granted tax abatement under Act 198 or Act 255 there exists separate tax rolls referred to as the industrial facilities tax roll (the “IFT Tax Roll”) and the commercial facilities tax roll (the “CFT Tax Roll”), respectively. The IFT or CFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the Taxable Value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility the IFT or CFT Tax is also determined the same as the Ad Valorem Tax but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals ½ of all tax rates levied by other than the state and local school district for operating purposes plus ½ of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals ½ of all tax rates levied by other than the State plus none, ½ or all of the state tax rate (as determined by the State Treasurer). Act 255 expired as an effective statute of the State of Michigan on December 31, 1986. Tax abatements granted to commercial facilities under Act 255 prior to December 31, 1986 have expired.

The City has established goals, objectives and procedures to provide the opportunity for industrial and commercial development and expansion. Since 1974, the City has approved a number of applications for local property tax relief for industrial firms. Most abatements have been for new industrial facilities. The SEV of properties which have been granted tax abatement under Act 198, removed from the Ad Valorem Tax Roll totaled \$3,765,800 for the fiscal year ending June 30, 2010. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$2,078,239 of Taxable Value at the full tax rate (the “Equivalent Taxable Value”). Upon expiration of the industrial facilities exemption certificates the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value.

**City of Sault Ste. Marie
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2008 Through June 30, 2012**

<u>Levy July 1</u>	<u>Fiscal Year Ended or Ending June 30</u>	<u>Operating</u>	<u>Police and Fire Pension</u>	<u>Refuse Collection and Disposal</u>	<u>Library</u>	<u>Total</u>
2007	2008	16.8139	3.1352	0.4332	0.8000	21.1823
2008	2009	16.8139	3.2884	0.5332	0.8000	21.4355
2009	2010	16.8139	3.3922	0.5332	0.8000	21.5393
2010	2011	16.8139	3.7147	0.6298	0.8000	21.9584
2011	2012	16.8139	3.7813	0.5632	0.8000	21.9584

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

**City of Sault Ste. Marie
Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2007 Through June 30, 2011**

<u>Governmental Unit</u>	<u>Fiscal Year Ending June 30</u>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
City of Sault Ste. Marie	21.1823	21.1823	21.4355	21.5393	21.9584
Chippewa County	8.4214	8.6613	8.6483	9.1483	9.1407
State Education Levy	6.0000	6.0000	6.0000	6.0000	6.0000
Sault Ste. Marie Public Schools	2.1100	1.9000	1.9000	1.8000	1.8000
Intermediate School District	<u>0.9702</u>	<u>0.9717</u>	<u>0.9717</u>	<u>0.9717</u>	<u>0.9717</u>
Total	<u><u>38.6839</u></u>	<u><u>38.7153</u></u>	<u><u>38.9555</u></u>	<u><u>39.4593</u></u>	<u><u>39.8708</u></u>

**City of Sault Ste. Marie
Non-Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2007 Through June 30, 2011**

<u>Governmental Unit</u>	<u>Fiscal Year Ending June 30</u>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
City of Sault Ste. Marie	21.1823	21.1823	21.4355	21.5393	21.9584
Chippewa County	8.4214	8.6613	8.6483	9.1483	9.1407
State Education Levy	6.0000	6.0000	6.0000	6.0000	6.0000
Sault Ste. Marie Public Schools	20.0704	19.8604	19.8604	19.7604	19.7388
Intermediate School District	<u>0.9702</u>	<u>0.9717</u>	<u>0.9717</u>	<u>0.9717</u>	<u>0.9717</u>
Total	<u><u>56.6443</u></u>	<u><u>56.6757</u></u>	<u><u>56.9159</u></u>	<u><u>57.4197</u></u>	<u><u>57.8096</u></u>

(1) *Principal Residence* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Principal Residence includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the Principal Residence includes only 5 acres adjacent and contiguous to the home of the owner. Principal Residence includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Principal Residence also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-Principal Residence* is property not included in the above definition.

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

**City of Sault Ste. Marie
Property Tax Collections
Fiscal Years Ended or Ending June 30, 2007 Through June 30, 2012**

July 1 Levy	Fiscal Year Ended/ Ending June 30	Tax Levy(1)	Collections to March 1 Following Levy	Percent Collected
2006	2007	\$ 5,488,664	\$ 5,162,643	94.06%
2007	2008	5,525,764	5,183,390	93.80%
2008	2009	5,716,741	5,261,612	92.04%
2009	2010	5,850,355	5,338,444	91.25%
2010	2011	6,038,567	5,578,083	92.37%
2011	2012	6,059,591	(In Process of Collection)	

(1) Includes all millages levied by the City, and also includes certain taxes on properties granted tax abatement under Act 198. See “Tax Abatement” and “Property Tax Rates” herein.

Source: City of Sault Ste. Marie

(1)*Homestead* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-homestead* is property not included in the above definition.

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

Profile of the Ten Largest Taxpayers

Reflected below are the City’s ten largest property taxpayers, their principal product or service and respective Total Taxable Value for the fiscal year ending June 30, 2012.

**City of Sault Ste. Marie
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2012**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2011 Taxable Value</u>	<u>Percent of Total (1)</u>
Cloverland Electric	Electric Company	\$15,331,900	5.18%
DDR Michigan II LLC	Cascade Crossing Shopping Mall	6,953,200	2.35%
Wal-Mart Real Estate Business	Department Store	6,548,600	2.21%
Pointe West 1 LP	Apartment Complex	4,262,805	1.44%
Precision Edge Surgical Products	Medical Products	2,839,900	0.96%
Chippewa County War Memorial	Hospital	2,752,446	0.93%
Sault Ste. Marie Tribe of Chippewa Indians	Various	2,373,266	0.80%
Central Savings Bank	Bank	2,279,253	0.77%
McKinley Manor LLC	Assisted Living Facility	1,529,900	0.52%
Sault Express Limited	Motel	<u>1,502,400</u>	<u>0.51%</u>
		<u>\$46,373,670</u>	<u>15.67%</u>

(1) Based on \$295,965,221 which the City’s Total Taxable Value for its fiscal year ending June 30, 2012. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See “Property Valuations” and “Tax Abatement” herein.

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of June 30, 2011.

Debt Limit (1)		\$ 31,772,750
Debt Outstanding (2)	\$ 50,644,942	
Less: Exempt Debt (3)	<u>25,416,400</u>	<u>25,228,542</u>
Legal Debt Margin		<u>\$ 6,544,208</u>

(1) 10% of \$317,727,500, which is the City’s State Equalized Valuation for the fiscal year ending June 30, 2012. Includes the SEV of property granted tax abatement under Act 198. See “Property Valuations” and “Tax Abatement” herein.

(2) Does not include the County of Chippewa’s Chippewa County Water Supply and Sewage Disposal System Refunding Bonds (City of Sault Ste. Marie), Series 2011, which refinanced the 1995, 1998 and 2001 Chippewa County Bond issues, in the amount of \$4,790,000.

(3) See “Statutory and Constitutional Debt Provisions” herein.

Source: Municipal Advisory Commission of Michigan and the City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

Debt Statement

The following table reflects a breakdown of the City’s direct and overlapping debt as of June 30, 2011 including the Bonds described herein. Direct debt that is shown as self-supporting is paid from sources other than the City’s General Fund.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds that are designated as Unlimited Tax (“UT”). However, the City’s ability to levy tax to pay the debt service on the bonds that are designated as Limited Tax (“LT”), is subject to applicable charter, statutory and constitutional limitations. See “CITY TAXATION AND LIMITATION” herein.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self- Supporting</u>	<u>Net</u>
Share of County Issued Bonds:			
Dated February 3, 2010 (LT)	\$ 7,870,000	\$ 7,870,000	\$ -
Dated December 11, 2001 (LT) (4) (5)	2,055,000	2,055,000	-
Dated November 4, 1998 (LT) (4) (5)	1,830,000	1,830,000	-
Dated November 29, 1995 LT) (5)	<u>1,260,000</u>	<u>1,260,000</u>	<u>-</u>
Subtotal	<u>13,015,000</u>	<u>13,015,000</u>	<u>-</u>
Building Authority Bonds:			
Dated June 1, 1997 (LT)	315,000	315,000	-
Dated March 1, 1994	<u>245,000</u>	<u>245,000</u>	<u>-</u>
Subtotal	<u>560,000</u>	<u>560,000</u>	<u>-</u>
Michigan Transportation Fund Bonds:			
Dated September 1, 2008 (LT) (4)	680,000	680,000	-
Dated November 1, 2000 (LT) (4)	615,000	615,000	-
Dated June 1, 1997 (LT) (4)	<u>95,000</u>	<u>95,000</u>	<u>-</u>
Subtotal	<u>1,390,000</u>	<u>1,390,000</u>	<u>-</u>
Tax Increment Bonds:			
Dated April 27, 2005 (LT)	<u>5,455,000</u>	<u>5,455,000</u>	<u>-</u>
Subtotal	<u>5,455,000</u>	<u>5,455,000</u>	<u>-</u>
Capital Improvement Bonds:			
Dated February 3, 2010 (LT)	4,505,000	-	4,505,000
Dated January 22, 2010 (LT)	455,000	455,000	-
Dated November 2, 2005 (LT)	645,000	645,000	-
Dated March 8, 2005 (LT)	865,000	725,000	140,000
Dated October 1, 2002 (LT) (4)	<u>3,040,000</u>	<u>3,040,000</u>	<u>-</u>
Subtotal	<u>9,510,000</u>	<u>4,865,000</u>	<u>4,645,000</u>

(Continued)

NOTE 2 - TABLES: (Continued)

Debt Statement: (Continued)

City Direct Debt	Gross	Self-Supporting	Net
Water and Sewer Bonds (continued)			
Dated January 22, 2010 (LT) (4)	7,500,000	7,500,000	-
Dated March 27, 2003 (4)	2,205,000	2,205,000	-
Dated September 26, 2002 (LT) (4)	2,380,000	2,380,000	-
Dated September 28, 2001 (LT) (4)	1,185,000	1,185,000	-
Dated September 29, 1998 (4)	2,125,000	2,125,000	-
Dated September 29, 1998 (4)	2,125,000	2,125,000	-
Dated September 30, 1997 (LT) (4)	280,000	280,000	-
Dated September 1, 1997 (LT) (4)	380,000	380,000	-
Dated September 28, 1995 (LT) (4)	1,330,000	1,330,000	-
Subtotal	<u>19,510,000</u>	<u>19,510,000</u>	<u>-</u>
Installment Purchase Obligations			
Dated June 8, 2009 (LT)	46,828	46,828	-
Dated August 2007 (LT)	469,939	234,970	234,969
Dated August 3, 2006 (LT)	520,300	520,300	-
Dated October 1, 2005 (LT)	167,875	167,875	-
Subtotal	<u>1,204,942</u>	<u>969,973</u>	<u>234,969</u>
Total City Direct Debt	<u>\$ 50,644,942</u>	<u>\$ 45,764,973</u>	<u>\$ 4,879,969</u>
Per Capita Net City Direct Debt (1)			\$345.02
Percent of Net Direct Debt to Total SEV (2)			1.54%
Overlapping Debt (3)	Gross	City Share as Percent of Gross	Net
Sault Ste. Marie Public Schools	\$ 8,110,000	56.54%	\$ 4,585,394
Chippewa County	<u>12,700,000</u>	27.75%	<u>3,524,250</u>
Totals	<u>\$ 20,810,000</u>		<u>\$ 8,109,644</u>
Per Capita Net Overlapping Debt (1)			\$573.36
Percent of Net Overlapping Debt to Total SEV (2)			2.55%
Per Capita Net Direct and Overlapping Debt (1)			\$918.38
Percentage of Net Direct and Overlapping Debt to Total SEV (2)			4.09%

NOTE 2 - TABLES: (Continued)

Debt Statement: (Continued)

- (1) Based on the City's 2010 Census population of 14,144.
- (2) Based on \$317,727,500, which is the City's State Equalized Valuation for the fiscal year ending June 30, 2012. Includes the SEV of property granted tax abatement under Act 198.
- (3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.
- (4) Bonds, or portions of the bonds, are considered to be "Exempt Debt" for purposes of the Legal Debt Margin calculation.
- (5) On July 12, 2011, the 1995, 1998 and 2001 Chippewa County Bonds were refinanced with the County's Chippewa County Water Supply and Sewage Disposal System Refunding Bonds (City of Sault Ste. Marie), Series 2011, in the amount of \$4,790,000.

Source: Municipal Advisory Commission of Michigan and the City of Sault Ste. Marie

**City of Sault Ste. Marie
Revenues From the State of Michigan
Fiscal Years Ended or Ending June 30, 2006 Through 2011**

	Fiscal Year Ending June 30					
	2006	2007	2008	2009	2010	2011
Sales Tax	\$ 1,730,057	\$ 1,678,536	\$ 1,678,536	\$ 1,622,059	\$ 1,442,659	\$ 1,442,659
Income Tax	-	-	-	-	-	-
Liquor Licensees	18,167	18,850	18,817	30,592	18,886	20,385
Total Revenues	<u>\$ 1,748,224</u>	<u>\$ 1,697,386</u>	<u>\$ 1,697,353</u>	<u>\$ 1,652,651</u>	<u>\$ 1,461,545</u>	<u>\$ 1,463,044</u>

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
General Pension System
Five-Year History**

Valuation Date <u>December 31</u>	Actuarial Accrued <u>Liability</u>	Actuarial Value of <u>Assets</u>	Funded <u>Ratio</u>
2006	20,110,296	19,430,327	96.62%
2007	21,340,757	20,401,467	95.60%
2008	23,333,553	20,737,376	88.87%
2009	23,325,780	20,883,945	89.53%
2010	24,418,081	21,087,835	86.36%

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

**City of Sault Ste. Marie
Police and Fire Pension System
Five-Year History**

<u>Valuation Date December 31</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Funded Ratio</u>
2006	20,321,773	11,715,957	57.65%
2007	21,592,481	12,406,880	57.46%
2008	21,684,471	12,964,351	59.79%
2009	22,599,453	11,613,388	51.39%
2010	23,370,978	11,868,871	50.78%

(1) After changes in actuarial assumptions.

Source: City of Sault Ste. Marie

Labor Contracts

Approximately 76.61% of the City’s permanent employees are represented by labor organizations. The following table illustrates the various labor organizations that represent City employees, the number of members in each and expiration date of the present contract.

	<u>Membership</u>	<u>Current Expiration Date</u>
United Steelworkers of America - Public Works	43	June 30, 2011*
United Steelworkers of America - Clerical	10	June 30, 2010*
United Steelworkers of America - Firefighters	15	June 30, 2011*
United Steelworkers of America - Fire Captains	3	June 30, 2012
Michigan Fraternal Order of Police Labor Commission -Patrol Unit	16	June 30, 2011*
Michigan Fraternal Order of Police Labor Commission -Police Records	4	June 30, 2012
Michigan Fraternal Order of Police Labor Commission -Police Command	4	June 30,
2012 Non-Union Employees	<u>31</u>	N/A
Total Permanent City Employees	<u>126</u>	

*In process of negotiation.

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

Profile of Major Employers

The table located below reflects the diversity of the ten largest employers in the City by the estimated number of employees and the products manufactured or services provided.

<u>Company</u>	<u>Principal Product or Service</u>	<u>Approximate Number of Employees</u>
State of Michigan Offices	Various Governmental Services	1,342
War Memorial Hospital	Health Care	664
Kewadin Hotel and Convention Center	Casino, Hotel, Convention Center	550
Wal-Mart	Retail	450
Lake Superior University	Higher Education	400
Sault Area Public Schools	Primary/Secondary Education	286
Hiawatha Behavioral Health	Mental Health Agency	200
Precision Edge	Surgical Instruments	184
U.S. Coast Guard	Military	91
Kmart	Retail	79

Source: City of Sault Ste. Marie

Employment

Reflected below are the unemployment statistics for the County and the State for the calendar years 2006 through 2011.

County of Chippewa:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010(2)</u>	<u>2011</u>
Employed	16,234	16,188	15,811	15,490	15,150	15,225
Unemployed	<u>1,506</u>	<u>1,528</u>	<u>1,718</u>	<u>2,029</u>	<u>2,300</u>	<u>1,700</u>
Labor Force	<u><u>17,740</u></u>	<u><u>17,716</u></u>	<u><u>17,529</u></u>	<u><u>17,519</u></u>	<u><u>17,450</u></u>	<u><u>16,925</u></u>
Unemployed as Percent Of the Labor Force (1)	8.5%	8.6%	9.8%	11.6%	13.2%	10.1%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(2) As of June 2011.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth

NOTE 2 -TABLES: (Continued)

State of Michigan:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010(2)</u>	<u>2011</u>
Employed	4,730,000	4,660,000	4,519,000	4,158,000	4,196,000	4,218,400
Unemployed	<u>351,000</u>	<u>360,000</u>	<u>416,000</u>	<u>718,000</u>	<u>634,000</u>	<u>473,400</u>
Labor Force	<u>5,081,000</u>	<u>5,020,000</u>	<u>4,935,000</u>	<u>4,876,000</u>	<u>4,830,000</u>	<u>4,691,800</u>
Unemployed as Percent Of the Labor Force (1)	6.9%	7.2%	8.4%	14.7%	13.1%	10.1%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(2) As of June 2011.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

ROBERT L. HASKE, CPA
AMBER N. MACK, CPA, EA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Mayor and Members
Of the City Commission
City of Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sault Ste. Marie, Michigan for the year ended June 30, 2011, and have issued our report thereon dated December 8, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 13, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City of Sault Ste. Marie, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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.

As part of obtaining reasonable assurance about whether the City of Sault Ste. Marie, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Sault Ste. Marie, Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Sault Ste. Marie, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Sault Ste. Marie, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on July 13, 2011.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Sault Ste. Marie, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$240,000.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 8, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

Accounting and Financial Reporting for Intangible Assets (Prior Year)

In June of 2007, the GASB issued Statement No. 51, to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments.

Status: Uncorrected.

Payroll (Prior Year)

It was noted during testing of payroll that various forms including the W-4, I-9, Michigan New Hire, and deduction authorizations were missing from some of the files tested. It is recommended that all of these forms be completed and put with the employee's personnel file.

Status: Corrected.

GASB 54 Fund Balance Components (Prior Year)

The Governmental Accounting Standards Board has issued a new pronouncement, GASB #54 – Fund Balance Reporting and Governmental Fund Type Definitions. GASB #54 eliminates the current use of the terms reserved and designated in the reporting of fund balance, and replaces those terms with five new categories for segregating fund balance. The Standard is effective for periods beginning after June 15, 2010.

Following are the new categories and related definitions to be used for describing the components of your fund balance:

- **Non-spendable** – Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.
- **Restricted** – Reflects the same definition as Restricted net assets: Constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds and debt service funds.
- **Committed** – Includes amounts that are committed for specific purposes by formal action of the government's highest level of decision-making authority. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the government removes or changes the limitation by taking the same form of action it employed to previously imposed the limitation.

- **Assigned** – Amounts that are intended by the government to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the Board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policies established by the board. This would include ANY activity reported in a fund other than the General Fund.
- **Unassigned** – Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated".

The Standard also requires disclosure in the financial statements of any minimum fund balance policies. We encourage the City to become familiar with the new terms and definitions and work with the users of the financial statements to ensure a clear presentation and understanding of the new requirements.

Status: Implemented during the audit.

Payroll

It was noted during the test of controls over the payroll system that some of the employees did not have deduction authorizations on file for deferred compensation and various banks. We recommend that the City keep authorization for all employee deduction updated and stored in the employee file.

Conclusion

This information is intended solely for the use of the Mayor, City Commission and management of the City of Sault Ste. Marie and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 8, 2011