

City of Sault Ste. Marie, Michigan

BASIC FINANCIAL STATEMENTS

June 30, 2018

CITY OF SAULT STE. MARIE, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR	ANTHONY BOSBOUS
COMMISSIONER	TIM TALENTINO
COMMISSIONER	SHANE MILLER
COMMISSIONER	ABBY BAKER
COMMISSIONER	DON GERRIE
COMMISSIONER	KATHLEEN TWARDY
COMMISSIONER	GREG COLLINS

APPOINTED OFFICERS

CITY MANAGER	OLIVER TURNER
FINANCE DIRECTOR/TREASURER	KRISTIN COLLINS
CITY CLERK/DEPUTY CITY MANAGER	ROBIN TROYER

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 13, pages 63 through 66, and pages 67 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sault Ste. Marie's basic financial statements. The combining nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018 on our consideration of the City of Sault Ste. Marie's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the City of Sault Ste. Marie's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

December 6, 2018



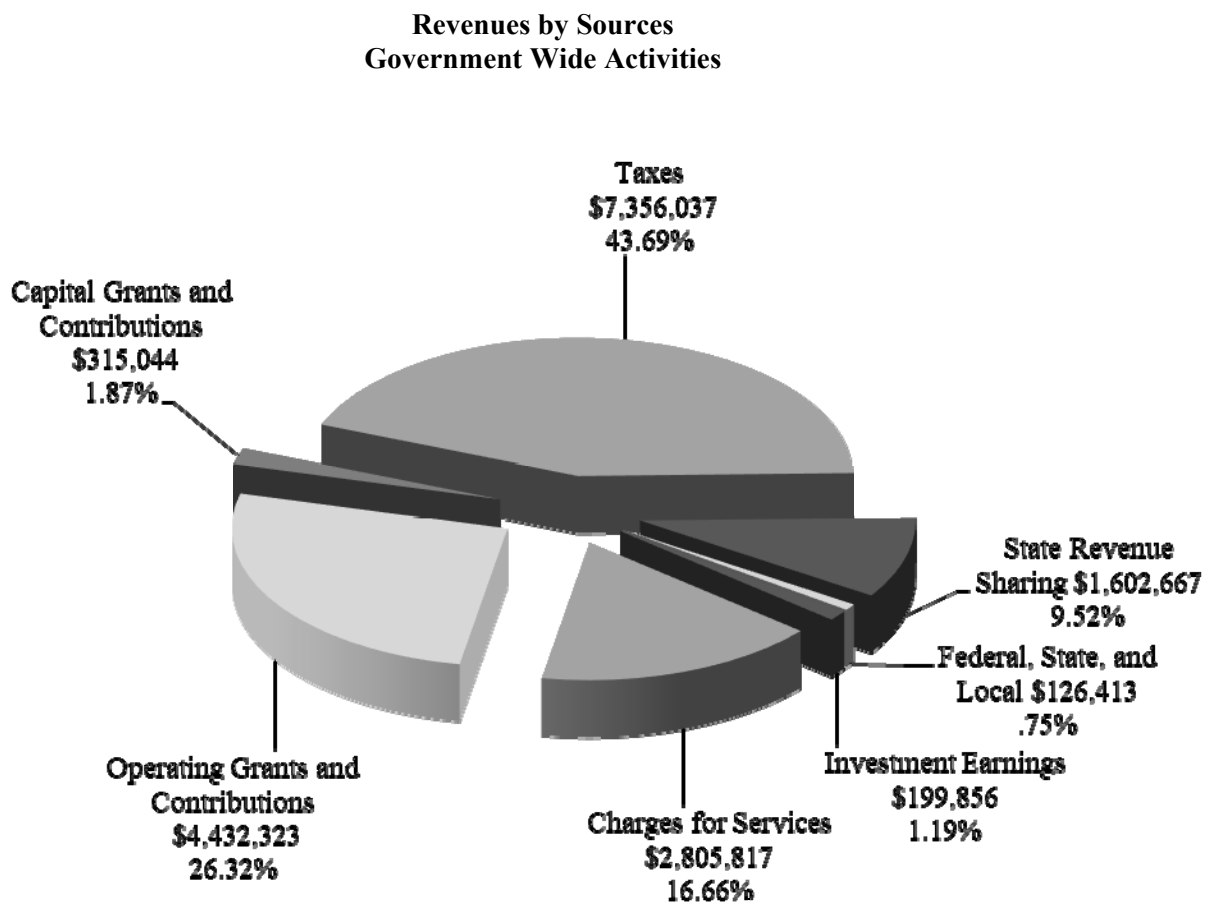
Management's Discussion and Analysis

The management of the City of Sault Ste. Marie, Michigan (the “City”), offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018 for the benefit of the readers of these financial statements. The focus of the management’s discussion and analysis is on significant financial issues and to provide an overview of the City’s financial activity. Readers are encouraged to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

HIGHLIGHTS OF FINANCIAL ACTIVITY

Revenues

The City has four main revenue components: property tax revenues, state revenue sharing, operational and capital grants, and charges for services.



Property Taxes

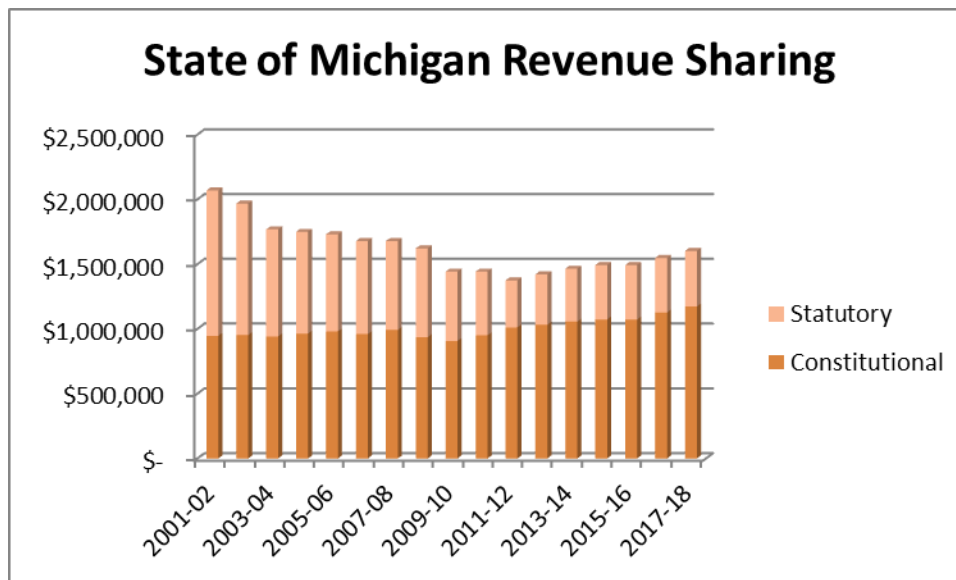
Taxable values for the 2018 fiscal year-end for the City totaled \$277,636,006, a 1.14% increase from the prior year. Gains and losses in taxable value have a direct effect on a primary source of revenue for the General Fund, but losses have a more significant effect on the tax increments because this revenue is generated solely on growth. For the downtown tax increment districts, revenues have been lower than original projections for many years. Taxable values for 2018 were \$285,419,554, a gain of \$7,783,548 or 2.8% over last year. The positive effect of this increase will not be felt until fiscal year ending June 30, 2019.

<u>Tax Year</u>	<u>Total Taxable Value</u>	<u>% Change</u>
2014	\$ 281,782,795	-4.18%
2015	277,794,900	-1.42%
2016	274,496,535	-1.19%
2017	277,636,006	1.14%
2018	285,419,554	2.80%

Increases in taxable value with no change in millage translate into increased revenue. Total City millage increased from 22.8273 in 2017 tax year to 23.4537 in 2018 tax year. The operating millage at 16.8139 and Solid Waste millage at 0.5632 remained unchanged. The Police/Fire Pension millage increased from 5.4502 to 6.0766 mills to cover increased required employer contributions into the retirement plan. A higher millage might have been needed had taxable value not increased. More information regarding taxable values and millage rates can be found in the additional information at the back of this report.

State Revenue Sharing

Annual sales tax distributions from the State, also known as revenue sharing, are a significant source of income for the City, making up almost 14% of the General Fund Revenue this year. As shown below, distributions steadily declined from 2001 to 2012, but gradually increased since that low point. From 2001 to 2018, total revenue sharing dropped 23%, with the statutory portion of this dropping 62%. As the name indicates, the constitutional portion is protected by State law.



The State’s rationale used in distributing the statutory portion of these payments in accordance with Governor Snyder’s County, Village and Township Revenue Sharing Program which promotes transparency in the reporting of financial information to the public. Since implementation of this program, the City has responded accordingly to meet all State requirements to maximize this revenue as well as to provide this information in a clear and concise format to a wider audience than in the past.

Grants and Contributions

The City receives significant revenue in the form of grants from other governmental agencies, such as the State of Michigan and the Federal Government. In addition to revenue sharing of \$1,602,667, the City received pass-through grants used to operate the Community Action Agency's Dial-A-Ride program at a sum of \$289,529, and payments for fire service of State facilities of \$122,429. The main source of operational funding for the street funds is the State, with \$1,583,853 coming in from gas and weight taxes, \$259,194 for winter maintenance, \$165,305 for trunkline maintenance and additional road funding of \$111,779.

The City also received revenue from capital grants during the year which contributed to infrastructure improvements, including the following three major projects which were completed during the year: East Spruce Street with \$360,417 of Federal support and West Fourth Avenue with combined State and Federal grants of \$515,860. Additionally, the multi-year Wastewater and Storm water Asset Management plan project continued and is nearing completion with funding of \$290,565 in the fiscal year. The Downtown Development Authority collected more donations than in years past with Music in the Park bringing in \$17,733, Mainstreet donations of \$13,776 and a new sun shade for the farmer's market lot was donated from Sault Tribe with a value of \$13,500. Event income was also higher than in the past at \$48,709 with a goal of covering costs associated with events and providing additional financial support to this component unit fund.

Sewer and Water Fund Revenue

The largest of the City's business-type funds is the Sewer and Water Fund, which operates something like a nonprofit business. Rates are determined annually with the budget cycle using two main components: budgeted expenses and estimated quantities sold. Consumption has fallen over time in step with water conservation, and may drop to even lower levels in years to come. It is difficult to estimate reductions each year due to high variability, with decreases ranging from 0.43% to 3.10% annually over the past eight years. Conversely at the close of the 2018 fiscal year, consumption was 1.3% higher than the prior year, the first annual increase in records going back to 2005. The long-range average annual change is still a decrease of 1.47%.

Contrary to the variable revenue stream, a large percentage of the total expense is fixed in long term debt obligations used for sometimes mandated capital improvements. The City has been fiscally responsible with its annual valuation of water rates to ensure that trends do not result in a dramatic rate jump or financial difficulty for the Sewer and Water Fund. The City continues to cover costs in the Water and Sewer fund with moderate and steady annual rate increases between 3.0 and 4.5% with a sincere effort to keep them as low as possible for its customers and yet still provide a high quality of service.

Operational Expenditures

Operational expenditures across all City funds came in 1.3% higher than that of the prior fiscal year. Major cost categories include wages and fringe benefits, contracted services, repair and maintenance, fuel and utilities.

Wages and Fringe Benefits

As a service organization, the City's largest expense is personnel, which cost roughly \$11.1 million this year. In 2013 the City implemented an administrative reorganization plan which included a multi-tiered compensation schedule for many employees. Increases have been kept at or below 2% since then for the majority of City staff.

Fringe benefits account for 36% of personnel cost overall, and of that, healthcare and pension costs are the highest. The City, working through a Healthcare Committee, has implemented 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. The Committee analyzes costs to keep average expenses level while reducing covered services to make that happen. Since its implementation in 2010, the employer share of healthcare costs has been reduced despite rapid inflation in this area. Claims and premiums are down from \$903,852 in 2010 to \$796,780 in 2018. It is important to note that employees and their families play an important role in the reduction of costs with conscientious behavior and proactive decisions regarding health.

Another major component of fringe benefits cost is pension contributions. The City has two systems, with general employees being covered under Municipal Employees Retirement System (MERS) and police, ambulance and firefighters being covered by a locally administered Act 345 pension which is funded by a separate tax millage. Contributions to both systems during the fiscal year totaled \$2,151,983, up \$104,908 as compared to last year. Despite increasing contributions, the most recent actuarial reports show the MERS pension is 69% funded and the Police and Fire Pension system was 54% funded. Both plans have made significant changes in assumptions which will have the long-term effect of improving the funded status, but it will take time for this to be reflected in the financials as a decrease in the unfunded liability. Readers will find more detailed information regarding both pension systems in note disclosure.

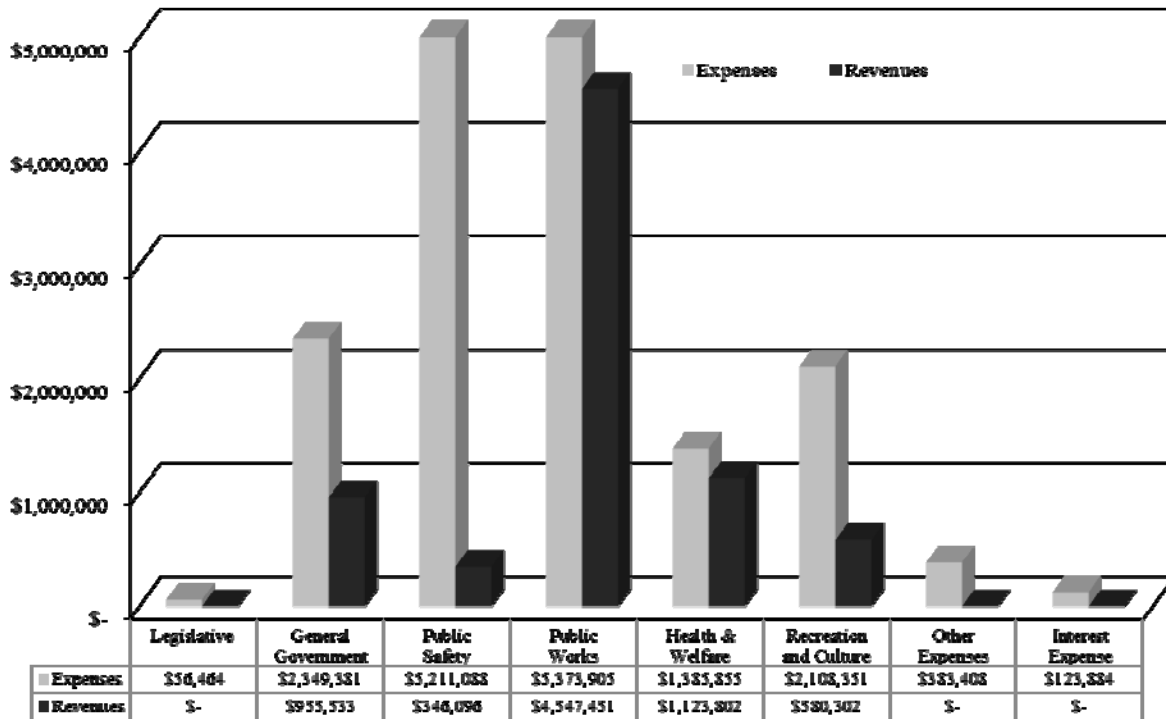
Contracted Services, Equipment Repair and Maintenance, and Insurance

The City utilizes contractors to complete tasks for which it does not have staffing or expertise and for which the cost versus benefit of doing so is advantageous. Exclusive of capital projects, the cost of contracted services was \$602,077, which is 3% lower than the prior year and has been declining over three years. The cost of routine equipment repair and maintenance was \$451,674, a 7% increase over last year. This cost is variable, and is expected to go down with the addition of new equipment that is rotated as part of the six-year capital improvement plan. Insurance exclusive of healthcare, which totaled \$367,793 last year, was up 3% over the prior year.

Fuel and Utilities

Fuel and utilities are a major cost component of providing the services to residents, with total costs of \$1,104,209 it came in 9% higher than last year. Of this, fuel costs increased 15% from the prior fiscal year to come in at \$337,183. Utilities include gas for heat, electricity, and water and as a group, these costs went up 7%, at a cost of \$767,027 this year. City departments are charged for water and sewer services at the same rates as outside customers. Street lighting is a major component of electricity at a cost of \$150,177 this year, and continues to decline from \$184,900 last year and \$192,666 the year before. Some of these savings are being generated by lighting upgrades to lower cost LED with the assistance of Cloverland Electric Cooperative.

**Expenses and Program Revenues
Government Wide Activities**



Capital Acquisitions, Projects and Equipment

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 useful lives.

Major improvements to the City’s infrastructure that were completed during the fiscal year include the following projects: Lynn Trail system upgrades at Sault Seal Recreation Area at a cost of \$36,224, Voyager Island Trails at a cost of \$94,187, installation of a traffic signal at the new Meijer intersection for \$42,857, and improvements to traffic control for bicyclists and pedestrians on W. Easterday Avenue in the amount of \$51,387. The ongoing City-wide sidewalk replacement program continued to work toward improved walkability with this year’s investment of \$59,524. Screw Pumps were updated at the Waste Water Treatment Plant and this multi-year project was completed at a cost of \$374,401. The final phase of Combined Sewer Overflow work was completed bringing the total spent as of June 30, 2018 to \$13,940,972. Major categories of this project and amounts spent to date include sewer at a cost of \$7,208,078, water at \$4,430,596 and the road portion coming in at \$2,302,298.

Projects that are currently underway and their costs to date include: the multi-year Wastewater and Storm water Asset Management plan project nearing completion with \$502,551 spent, reconstruction of East Spruce Street was roughly 90% complete at \$713,633, and reconstruction of West 4th Avenue is around 80% complete at a cost of \$751,186, 3 Mile Roundabout had just begun with City costs of \$159,219, the DPW Complex plan was also at the beginning stages with \$111,576 spent, Shoreline Repairs to the Carbide Dock and Alford Park project has cost \$29,328 to date and may see more progress next year as LSSU’s Center for Freshwater Research and Education gains momentum, \$103,354 worth of improvements were made at the airport during the year including terminal renovations, lighting, air-industrial park marketing and a PFC overlay.

Major acquisitions of equipment include the purchase of cardiac monitors for \$33,976 and a new phone system at a cost of \$62,140. Vehicles purchased include an ambulance at a cost of \$188,530, a police patrol vehicle at \$34,361, a Peterbuilt truck with plow at a cost of \$159,784, a used bucket truck purchased from the Chippewa County Road Commission for \$22,488, and a sewer truck with vacuum attachments for use in the Sewer/Water Department at a cost of \$410,756.

See Notes to the Financial Statements for more information regarding the City's capital assets, beginning and end of year valuations and changes during the year, along with a breakdown for each asset class.

Debt Administration

Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid from a Debt Service Fund or an Enterprise Fund. Debt is classified as long-term if the debt matures in a period greater than one year. In January of 2016, the City adopted a formal written debt policy to further document parameters to consider with each new obligation.

The City of Sault Ste. Marie's total debt decreased from \$43,274,033 at the beginning of the fiscal year to \$39,500,778 at June 30, 2018. The City made regular and scheduled payments on debt with a total amount of \$3,904,850 paid down on principal throughout the fiscal year. These reductions were partially offset by loan draws which were made in connection with construction progress on two bonds that were issued to fund the Combined Sewer Overflow (CSO) Phase C-3 project. This fiscal year nearly concluded this phase of the twenty-year sewer separation project with loan draws of \$76,379. As of the close of the project, the City had drawn \$11,234,950 of the combined \$12,445,000 available balance. Conversely, the 1997 West Portage Avenue bonds used to fund an earlier phase of CSO work matured during the year, which evidences the long span of time it has taken to complete this work. The City purchased the new sewer truck using an installment purchase option at a net cost of \$359,800. This installment purchase contract and the final loan draws for CSO work were the only additions to long term debt obligations during the fiscal year. For more information regarding the City's long-term debt, see the notes to the financial statements.

Of the total net position, \$(9,136,765) is unrestricted due to the City's net pension obligation. At the close of June 30, 2015, the City implemented the provisions of GASB 68, Accounting and Financial Reporting for Pensions, resulting in a net pension liability of \$18,306,821 at that time. The liability increased to \$25,524,278 over the past three years as of June 30, 2018.

Budget

Public Act 621 of 1978 of the State of Michigan and Section 8 of the City Charter require City Commission adoption of a Budget Plan each fiscal year. A tentative budget is prepared and submitted by the City Manager to the City Commission in April. The City Commission reviews and revises the tentative budget through a series of work sessions, special meetings, and public hearings, and must formally adopt a budget for each of its operational funds prior to June 1st. Along with the budget, formal resolutions are also made for the tax levy, capital projects, and sewer and water rates. Public input is encouraged at every stage of the budget development right up through the hearings prior to adoption, and the proposed and final budget is available on the City website at www.saultcity.com. Budgetary comparison statements have been provided herein to demonstrate compliance with the major governmental funds, including the General Fund and the major Special Revenue Street Funds.

The Commission is presented with an operational budget review report at several points during the year. The first is presented with the close of September, the is second usually at the close of December, and the final one presented in June with actual April or May data and a best estimate for fiscal year-end totals.

For the fiscal year ending June 30, 2018 revenues in the General Fund were over the final appropriated amounts by \$69,340. This variance is attributable to many line items, with significant negative variances being found in tax revenue as a result of taxable value adjustments during the year which were more than offset by higher than anticipated revenues of three types: Constitutional Revenue Sharing which was \$30,067 over budget and \$55,355 higher than the prior year, ambulance revenue (net of write offs) were \$93,802 over budget and \$148,282 higher than the previous year, and interest income which was \$37,103 higher than budget and \$30,517 higher than the prior year in this fund alone. Major budget revisions made to revenue line items during the year include increases to Dial-A-Ride grants of \$50,000, Revenue Sharing of \$46,500, ambulance revenue of \$100,000 (net of write offs).

General Fund expenditures fell below budget by \$567,300 which is attributable to a wide variety of costs. Approximately \$298,443 of this is personnel related and the majority from vacant positions in the Police, Fire and Engineering Departments. Another \$30,172 was saved on fuel with prices and/or usage below expectations. Utilities are a large cost for the General fund in excess of \$280,000 this year, but in total these line items were just under budget by \$12,890. \$89,811 in savings can be attributed to having budgets in place for purchases of equipment that came in under budget or were deferred. Due to the requirement that actual expenditures must come in below budget, it is a best practice to ensure the budget is adequate to cover any foreseeable costs without losing sight of cost containment.

In the Major Street Fund, revenues came in over the amount appropriated by \$139,184 and expenditures came in under budget by \$87,822. The Local Street Fund closed the year with revenues over budget by just \$6,545 and expenditures were below budget by \$50,460. While actual operational expenses were up from the prior fiscal year by \$164,468 across all street related departments, investment in capital equipment in the Stock and Equipment Fund was at \$216,828 this year which is \$92,596 higher than last.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City maintains 15 individual governmental funds, which includes 4 major funds and 11 non-major 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 major funds, including General Fund, Major Streets, Local Streets and Capital Projects Fund. Data from the other governmental funds is combined into a single, aggregated presentation. Proprietary funds include Enterprise Funds, such as the sewer and water operations and Parking funds, and Internal Service Funds used for data processing, stock and equipment, and employee health insurance activities. These funds are used to accumulate and allocate costs internally among the various City functions. The City's five 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. For non-major funds of each type, more detail is provided in the Other Supplementary Information section of this report.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of changes in financial position. The majority of the City's net position reflects its investment in net capital assets (e.g., land, buildings, water, and sewer systems, vehicles, and equipment) less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investments 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. Restricted net position represents approximately 7% of total net position. The remaining balance of unrestricted net position \$(6,376,630) or (9)% primarily represents the portion of unfunded future pension liabilities in excess of current net assets.

The statement of activities shows how the government's net position changed during the most recent fiscal year as compared to the prior year. All changes in net position 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 primary 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 (DDA), the Economic Development Corporation (EDC), Tax Increment Financing Authority (TIFA III), the Local Development Financing Authority (LDFA), and the Brownfield Redevelopment Authority (BRA) are legally separate component units for which the City is financially accountable.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current Assets	\$ 14,645,613	\$ 14,383,685	\$ 7,381,290	\$ 7,448,263	\$ 22,026,903	\$ 21,831,948
Capital Assets	50,913,792	52,012,348	61,654,541	62,464,469	112,568,333	114,476,817
Deferred Outflows of Resources	5,589,862	5,078,833	249,156	439,463	5,839,018	5,518,296
Total Assets and Deferred Outflows of Resources	\$ 71,149,267	\$ 71,474,866	\$ 69,284,987	\$ 70,352,195	\$ 140,434,254	\$ 141,827,061
Current Liabilities	\$ 1,580,187	\$ 1,460,963	\$ 3,935,772	\$ 3,829,644	\$ 5,515,959	\$ 5,290,607
Noncurrent Liabilities	28,593,868	27,351,333	32,181,053	35,824,348	60,774,921	63,175,681
Deferred Inflows of Resources	1,643,046	2,065,418	193,759	131,057	1,836,805	2,196,475
Total Liabilities and Deferred Inflows of Resources	31,817,101	30,877,714	36,310,584	39,785,049	68,127,685	70,662,763
Net Position						
Net Investment in						
Capital Assets	46,283,243	46,988,322	27,530,276	24,966,031	73,813,519	71,954,353
Restricted	2,936,653	3,026,107	4,693,162	5,938,464	7,629,815	8,964,571
Unrestricted	(9,887,730)	(9,417,277)	750,965	(337,349)	(9,136,765)	(9,754,626)
Total Net Position	\$ 39,332,166	\$ 40,597,152	\$ 32,974,403	\$ 30,567,146	\$ 72,306,569	\$ 71,164,298

City of Sault Ste. Marie
Condensed Statement of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program Revenues						
Charges for Services	\$ 2,805,817	\$ 3,161,147	\$ 8,096,423	\$ 7,598,518	\$ 10,902,240	\$ 10,759,665
Operating Grants and Contributions	4,432,323	2,595,508	-	-	4,432,323	2,595,508
Capital Grants and Contributions	315,044	492,028	-	-	315,044	492,028
General Revenues						
Property Taxes	7,356,037	7,155,197	-	-	7,356,037	7,155,197
State Revenue Sharing	1,602,667	1,547,312	-	-	1,602,667	1,547,312
Federal, State and Local	126,413	197,977	-	-	126,413	197,977
Investment Earnings	199,856	159,782	41,909	22,991	241,765	182,773
Loss on disposal of fixed assets	-	-	-	-	-	-
Total Revenues	16,838,157	15,308,951	8,138,332	7,621,509	24,976,489	22,930,460
Program Expenses						
Legislative	56,464	50,212	-	-	56,464	50,212
General Government	2,349,381	2,224,543	-	-	2,349,381	2,224,543
Public Safety	5,211,088	5,010,017	-	-	5,211,088	5,010,017
Public Works	5,373,905	5,988,815	-	-	5,373,905	5,988,815
Health and Welfare	1,385,855	1,285,981	-	-	1,385,855	1,285,981
Recreation and Culture	2,108,351	1,880,731	-	-	2,108,351	1,880,731
Other Expenses	383,408	510,655	-	-	383,408	510,655
Interest Expense	123,884	135,765	-	-	123,884	135,765
Water and Sewer	-	-	6,237,624	6,327,593	6,237,624	6,327,593
Parking Deck	-	-	387,507	366,082	387,507	366,082
Parking	-	-	216,751	205,127	216,751	205,127
Total Expenses	16,992,336	17,086,719	6,841,882	6,898,802	23,834,218	23,985,521
Changes in Net Assets before Transfers	(154,179)	(1,777,768)	1,296,450	722,707	1,142,271	(1,055,061)
Transfers	(1,110,807)	(699,730)	1,110,807	699,730	-	-
Changes in Net Position	(1,264,986)	(2,477,498)	2,407,257	1,422,437	1,142,271	(1,055,061)
Net Position - Beginning	40,597,152	43,074,650	30,567,146	29,144,709	71,164,298	72,219,359
Net Position - Ending	\$ 39,332,166	\$ 40,597,152	\$ 32,974,403	\$ 30,567,146	\$ 72,306,569	\$ 71,164,298

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's elected and appointed officials consider many factors when setting the budget. Long-range goals and near term commitments are addressed each year, with an aim to maintain and improve key services to the community within funding constraints. In accordance with the adopted Guiding Financial Principles, the City addresses anticipated economic changes such as less than projected revenues in the tax increment financing funds, increasing contributions to its pension systems, and continued General Fund participation in the Parking Structure debt service payments. Beginning with the June 30, 2017 fiscal year, a two year budget was implemented and has proven to be a useful tool for decision makers, offering a clearer view of upcoming activity. The General Fund budget projects revenue to increase nominally to \$11,875,600 next fiscal year but shows a slight decrease in expenditures to \$11,449,900. Major and Local Street funds saw a 30% increase in its 99% State funded revenue, which alleviated reliance on local subsidies. In this way, the State of Michigan's renewed commitment to improve our roads resulted in much needed operational support as well as grants for capital improvements.

Fund Balance, Position and Projections

The City made a pro-active step to evaluate and maintain security of its financial position with the adoption of a fund balance policy in December of 2013, and has expanded its use of long-range forecasting models to better predict future needs. In the General Fund, fund balance increased from \$2,893,506 last year to \$3,242,496 during this fiscal year. This change increased the percentage of the fund balance to the total expenditures from 25.6% last year to 28.3% but is still within the 15 to 20 percent range as required by the policy. Projections show an increase to 28.1% for the next fiscal year-end and 28.5% at the close of June 2020. It is the City's plan to maintain a fund balance within the acceptable range, and a plan of action is specified if fiscal challenges cause the balance to dip below the threshold.

Long-term financial planning is the process of aligning financial capacity with long-term service objectives. Updated annually are the City Manager's five year projections for each major governmental fund. For the Sewer and Water enterprise fund, the City maintains a debt service coverage ratio worksheet that shows performance based on a 2% growth factor and scheduled existing debt as far out as 2038. The City also maintains a six year capital improvement plan which covers all categories including infrastructure, buildings and movable equipment. Through its financial planning, the City is provided insight into future financial capacity to achieve long-term sustainability in light of its service objectives and financial challenges. The process stimulates discussion and engenders a long-range perspective for decision makers.

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, Finance Director at 225 E. Portage Avenue, Sault Ste. Marie, Michigan, 49783. You may also visit the City's website at www.saultcity.com for more information or additional contacts.

Basic Financial Statements

Statement of Net Position
June 30, 2018

	Primary Government		Totals	Component Units
	Governmental Activities	Business-type Activities		
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 9,243,196	\$ 297,751	\$ 9,540,947	\$ 1,591,745
Cash and Equivalents - Restricted	1,657,545	1,945,758	3,603,303	-
Investments - Restricted	1,145,908	4,016,333	5,162,241	-
Accounts Receivable	431,191	916,314	1,347,505	36,586
Taxes Receivable	77,803	-	77,803	-
Debt Guarantee Receivable	-	-	-	43,581
Special Assessments Receivable	683,482	24,846	708,328	18,247
Due from Governmental Units	1,146,520	-	1,146,520	-
Inventories	193,664	179,463	373,127	-
Prepays	66,304	825	67,129	-
Capital Assets Not Depreciated	4,693,332	1,014,545	5,707,877	20,000
Capital Assets (Net of Accumulated Depreciation)	46,220,460	60,639,996	106,860,456	40,090
TOTAL ASSETS	65,559,405	69,035,831	134,595,236	1,750,249
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Items	5,589,862	112,667	5,702,529	8,774
Loss on Bond Refunding	-	136,489	136,489	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,589,862	249,156	5,839,018	8,774
LIABILITIES:				
Accounts Payable	655,447	68,271	723,718	37,607
Accrued Liabilities	317,374	42,615	359,989	3,127
Accrued Interest Payable	35,288	233,900	269,188	-
Unearned Revenue	-	18,632	18,632	-
Due to Other Governmental Units	-	-	-	-
Debt Guarantee Liabilities	-	-	-	383,415
Installment Loans - due within one year	54,378	69,895	124,273	-
Installment Loans - due in more than one year	151,306	249,647	400,953	-
Bonds Payable - due within one year	360,000	3,450,000	3,810,000	-
Bonds Payable - due in more than one year	4,064,865	30,354,723	34,419,588	-
Net Pension Liability - due in more than one year	23,939,322	1,474,267	25,413,589	110,689
Compensated Absences - due within one year	157,700	52,459	210,159	-
Compensated Absences - due in more than one year	438,375	102,416	540,791	16,729
TOTAL LIABILITIES	30,174,055	36,116,825	66,290,880	551,567
DEFERRED INFLOWS OF RESOURCES:				
Unavailable Revenues	77,803	-	77,803	-
Deferred Gain on Refunding	36,863	94,640	131,503	-
Pension Items	1,528,380	99,119	1,627,499	6,667
TOTAL DEFERRED INFLOWS OF RESOURCES	1,643,046	193,759	1,836,805	6,667
NET POSITION:				
Net Investment in Capital Assets	46,283,243	27,530,276	73,813,519	60,090
Restricted	2,936,653	4,693,162	7,629,815	-
Unrestricted	(9,887,730)	750,965	(9,136,765)	1,140,699
TOTAL NET POSITION	\$ 39,332,166	\$ 32,974,403	\$ 72,306,569	\$ 1,200,789

Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			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	\$ 56,464	\$ -	\$ -	\$ -	\$ (56,464)	\$ -	\$ (56,464)	\$ -
General Government	2,349,381	615,533	340,000	-	(1,393,848)	-	(1,393,848)	-
Public Safety	5,211,088	167,542	178,554	-	(4,864,992)	-	(4,864,992)	-
Public Works	5,373,905	319,590	3,912,817	315,044	(826,454)	-	(826,454)	-
Health and Welfare	1,385,855	1,123,802	-	-	(262,053)	-	(262,053)	-
Recreation and Culture	2,108,351	579,350	952	-	(1,528,049)	-	(1,528,049)	-
Other Expenses	383,408	-	-	-	(383,408)	-	(383,408)	-
Interest Expense	123,884	-	-	-	(123,884)	-	(123,884)	-
Total Governmental Activities	16,992,336	2,805,817	4,432,323	315,044	(9,439,152)	-	(9,439,152)	-
Business-type activities:								
Water and Sewer	6,237,624	7,479,214	-	-	-	1,241,590	1,241,590	-
Parking Deck	387,507	478,553	-	-	-	91,046	91,046	-
Parking	216,751	138,656	-	-	-	(78,095)	(78,095)	-
Total Business-type Activities	6,841,882	8,096,423	-	-	-	1,254,541	1,254,541	-
Total Primary Government	<u>\$ 23,834,218</u>	<u>\$ 10,902,240</u>	<u>\$ 4,432,323</u>	<u>\$ 315,044</u>	<u>(9,439,152)</u>	<u>1,254,541</u>	<u>(8,184,611)</u>	<u>-</u>
Component Units:								
EDC	\$ 328,741	\$ 97,801	\$ -	\$ -	-	-	-	(230,940)
BRA	29,490	-	-	-	-	-	-	(29,490)
DDA	724,310	180,717	120,564	-	-	-	-	(423,029)
TIFA III	224,131	-	62,596	-	-	-	-	(161,535)
LFDA	125,152	-	-	-	-	-	-	(125,152)
Total Component Units	1,431,824	278,518	183,160	-	-	-	-	(970,146)
Total	<u>\$ 25,266,042</u>	<u>\$ 11,180,758</u>	<u>\$ 4,615,483</u>	<u>\$ 315,044</u>				
General Revenues and Transfers:								
Taxes					7,356,037	-	7,356,037	342,562
State Revenue Sharing					1,602,667	-	1,602,667	-
Federal, State, and Local					126,413	-	126,413	457,623
Investment Earnings (Loss)					199,856	41,909	241,765	7,712
Transfers					(1,110,807)	1,110,807	-	-
Total General Revenues and Transfers					8,174,166	1,152,716	9,326,882	807,897
Change in Net Position					(1,264,986)	2,407,257	1,142,271	(162,249)
Net Position - Beginning					40,597,152	30,567,146	71,164,298	1,363,038
Net Position - Ending					<u>\$ 39,332,166</u>	<u>\$ 32,974,403</u>	<u>\$ 72,306,569</u>	<u>\$ 1,200,789</u>

**Balance Sheet
Governmental Funds
June 30, 2018**

	General	Major Streets	Local Streets	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 2,291,122	\$ 22,715	\$ 22,802	\$ 1,304,531	\$ 4,929,656	\$ 8,570,826
Cash and Equivalents - Restricted	529,493	-	-	-	858,497	1,387,990
Investments - Restricted	-	-	-	-	1,145,908	1,145,908
Accounts Receivable	304,944	-	-	23,717	3,968	332,629
Taxes Receivable	77,803	-	-	-	-	77,803
Special Assessments Receivable	-	806	21,054	51,333	610,289	683,482
Due from Other Funds	-	-	-	-	584,020	584,020
Due from Governmental Units	571,195	280,452	107,755	38,098	149,020	1,146,520
Prepays	64,310	-	-	-	-	64,310
Inventories	33,227	-	-	-	-	33,227
TOTAL ASSETS	\$ 3,872,094	\$ 303,973	\$ 151,611	\$ 1,417,679	\$ 8,281,358	\$ 14,026,715
LIABILITIES:						
Accounts Payable	\$ 293,654	\$ 273	\$ 233	\$ 27,048	\$ 120,026	\$ 441,234
Accrued Liabilities	258,142	684	684	14,823	-	274,333
Due to Other Funds	-	-	-	471,523	112,497	584,020
TOTAL LIABILITIES	551,796	957	917	513,394	232,523	1,299,587
DEFERRED INFLOWS OF RESOURCES:						
Special assessments	-	807	21,054	51,333	610,289	683,483
Tax Revenues	77,802	-	-	-	-	77,802
TOTAL DEFERRED INFLOWS OF RESOURCES	77,802	807	21,054	51,333	610,289	761,285
FUND BALANCES:						
Nonspendable	97,537	-	-	-	2,936,653	3,034,190
Restricted	-	302,209	129,640	852,952	4,435,743	5,720,544
Committed	1,785,474	-	-	-	-	1,785,474
Assigned	-	-	-	-	66,150	66,150
Unassigned	1,359,485	-	-	-	-	1,359,485
TOTAL FUND BALANCES	3,242,496	302,209	129,640	852,952	7,438,546	11,965,843
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,872,094	\$ 303,973	\$ 151,611	\$ 1,417,679	\$ 8,281,358	
	\$ -					
Reconciliation to amounts reported for governmental activities in the statement of net position:						
Capital assets used by governmental activities						50,208,349
Special assessments receivable recognized as revenue						683,482
Long-term notes and leases payable for governmental activities						(4,630,549)
Compensated absences						(569,192)
Pension items						(19,877,840)
Deferred Gain On Debt Refunding						(36,863)
Internal service funds included in governmental activities						1,624,224
Accrued interest expense payable						(35,288)
Net position of governmental activities						\$ 39,332,166

City of Sault Ste. Marie, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2018

	General	Major Streets	Local Streets	Capital Projects	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:						
Taxes	\$ 7,090,205	\$ -	\$ -	\$ -	\$ 265,832	\$ 7,356,037
Special Assessments	-	1,239	9,815	21,769	262,051	294,874
Licenses and Permits	30,255	-	-	-	-	30,255
Federal Sources	117,903	-	-	-	-	117,903
State Sources	1,963,295	1,468,360	651,771	696,285	895,532	5,675,243
Local Sources	-	-	-	96,588	460,300	556,888
Charges for Services	2,430,785	-	-	-	4,830	2,435,615
Rentals	59,849	-	-	-	-	59,849
Interest Earnings	76,803	485	2,260	-	120,308	199,856
Other Revenue	74,135	-	-	43,370	184,072	301,577
TOTAL REVENUES	11,843,230	1,470,084	663,846	858,012	2,192,925	17,028,097
EXPENDITURES:						
Legislative	50,671	-	-	-	-	50,671
General Government	2,060,854	-	-	-	-	2,060,854
Public Safety	4,809,507	-	-	-	-	4,809,507
Public Works	912,292	1,175,178	808,840	-	-	2,896,310
Health and Welfare	1,265,739	-	-	-	-	1,265,739
Recreation and Cultural	1,293,101	-	-	-	136,565	1,429,666
Capital Outlay	383,489	-	-	986,171	988,770	2,358,430
Debt Service	-	-	-	-	522,594	522,594
Other Expenditures	285,347	-	-	-	24,928	310,275
TOTAL EXPENDITURES	11,061,000	1,175,178	808,840	986,171	1,672,857	15,704,046
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	782,230	294,906	(144,994)	(128,159)	520,068	1,324,051
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	262,428	35,000	221,000	293,900	1,123,886	1,936,214
Operating Transfers Out	(696,100)	(191,700)	(68,400)	(377,368)	(1,591,253)	(2,924,821)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	348,558	138,206	7,606	(211,627)	52,701	335,444
FUND BALANCES, JULY 1	2,893,938	164,003	122,034	1,064,579	7,385,845	11,630,399
FUND BALANCES, JUNE 30	\$ 3,242,496	\$ 302,209	\$ 129,640	\$ 852,952	\$ 7,438,546	\$ 11,965,843

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, 2018

Net changes in fund balances - total governmental funds	\$ 335,444
The change in net position 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 capital outlay \$1,302,659 was exceeded by depreciation expense (\$3,302,317) and adjustments of \$58,860.	(1,108,941)
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.	(189,940)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments	393,477
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.	45,306
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
Pension Items	(745,625)
Deferred Gain	3,183
Accrued interest	2,050
	<hr/>
Change in net position of governmental activities	<u>\$ (1,264,986)</u>

**Statement of Net Position
Proprietary Funds
June 30, 2018**

	Business-type Activities Enterprise Funds				Governmental Activities
	Water and Sewer	Parking Deck	Nonmajor Funds	Totals	Internal Service Funds
ASSETS:					
Cash and Equivalents - Unrestricted	\$ 105,348	\$ 826	\$ 10,557	\$ 116,731	\$ 853,390
Cash and Equivalents - Restricted	1,391,771	-	553,987	1,945,758	269,555
Investments - Restricted	4,016,333	-	-	4,016,333	-
Accounts Receivable	569,103	347,211	-	916,314	98,562
Special Assessments Receivable	24,846	-	-	24,846	-
Inventories	179,463	-	-	179,463	160,437
Prepays	825	-	-	825	1,994
Capital Assets (Not Depreciated)	815,267	-	199,278	1,014,545	-
Capital Assets (Net of Accumulated Depreciation)	55,215,950	5,395,470	28,576	60,639,996	705,443
TOTAL ASSETS	62,318,906	5,743,507	792,398	68,854,811	2,089,381
DEFERRED OUTFLOWS OF RESOURCES					
Pension Items	112,667	-	-	112,667	-
Loss on Bond Refunding	136,489	-	-	136,489	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	249,156	-	-	249,156	-
LIABILITIES:					
Accounts Payable	57,012	8,265	2,994	68,271	214,213
Accrued Liabilities	40,265	137	2,213	42,615	43,041
Accrued Interest Payable	219,496	14,404	-	233,900	-
Unearned Revenue	18,632	-	-	18,632	-
Compensated Absences - due within one year	52,459	-	-	52,459	-
Compensated Absences - due in more than one year	97,124	-	5,292	102,416	26,883
Net Pension Liability	1,474,267	-	-	1,474,267	-
Installment Loans - due within one year	69,895	-	-	69,895	-
Installment Loans - due in more than one year	249,647	-	-	249,647	-
Bonds Payable - due within one year	3,115,000	335,000	-	3,450,000	-
Bonds Payable - due in more than one year	26,834,719	3,520,004	-	30,354,723	-
TOTAL LIABILITIES	32,228,516	3,877,810	10,499	36,116,825	284,137
DEFERRED INFLOWS OF RESOURCES					
Pension Items	99,119	-	-	99,119	-
Gain on Bond Refunding	-	94,640	-	94,640	-
TOTAL DEFERRED INFLOWS OF RESOURCES	99,119	94,640	-	193,759	-
NET POSITION:					
Net Investment in Capital Assets	25,761,956	1,540,466	227,854	27,530,276	705,443
Restricted	4,139,175	-	553,987	4,693,162	704,963
Unrestricted	339,296	230,591	58	569,945	394,838
TOTAL NET POSITION	\$ 30,240,427	\$ 1,771,057	\$ 781,899	32,793,383	\$ 1,805,244

Reconciliation to amounts reported for business activities in the statement of net position:

Internal service funds included in business-type activities	181,020
Net position of business-type activities	\$ 32,974,403

City of Sault Ste. Marie, Michigan

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds For the Year Ended June 30, 2018

	Business-type Activities Enterprise Funds			Governmental Activities	
	Water and Sewer	Parking Deck	Nonmajor Funds	Totals	Internal Service Funds
OPERATING REVENUES:					
Charges for Services	\$ 7,172,305	\$ 24,040	\$ 138,656	\$ 7,335,001	\$ 2,740,541
Other Revenue	306,909	6,610	-	313,519	120,300
Total Operating Revenues	7,479,214	30,650	138,656	7,648,520	2,860,841
OPERATING EXPENSES:					
Personnel	1,732,012	3,927	79,386	1,815,325	1,440,980
Supplies	132,182	1,861	3,719	137,762	239,069
Contracted Services	120,666	56,891	34,669	212,226	131,461
Parking Lot Expenses	-	63,000	8,562	71,562	-
Insurance	73,600	4,400	5,100	83,100	29,100
Utilities	378,768	32,759	567	412,094	162,907
Repairs and Maintenance	113,696	-	78,738	192,434	491,008
Rental	51,147	-	-	51,147	-
Depreciation	1,685,749	143,409	6,010	1,835,168	195,257
Other Expenses	1,054,444	1,544	-	1,055,988	13,488
Total Operating Expenses	5,342,264	307,791	216,751	5,866,806	2,703,270
OPERATING INCOME (LOSS)	2,136,950	(277,141)	(78,095)	1,781,714	157,571
NON-OPERATING REVENUES (EXPENSES):					
Local Sources	-	447,903	-	447,903	-
Interest Income	33,640	96	8,173	41,909	9,935
Interest Expense	(892,285)	(78,966)	-	(971,251)	-
Other	(3,075)	(750)	-	(3,825)	-
Total Non-operating Revenues (Expenses)	(861,720)	368,283	8,173	(485,264)	9,935
Income (Loss) Before Transfers	1,275,230	91,142	(69,922)	1,296,450	167,506
Transfers					
Operating Transfers In	4,994,386	315,600	121,100	5,431,086	562,600
Operating Transfers Out	(3,916,079)	-	(404,200)	(4,320,279)	(684,800)
Total Transfers	1,078,307	315,600	(283,100)	1,110,807	(122,200)
CHANGE IN NET POSITION	2,353,537	406,742	(353,022)	2,407,257	45,306
NET POSITION, JULY 1	27,886,890	1,364,315	1,134,921	30,386,126	1,759,938
NET POSITION, JUNE 30	\$ 30,240,427	\$ 1,771,057	\$ 781,899	\$ 32,793,383	\$ 1,805,244

City of Sault Ste. Marie, Michigan

Statement of Cash Flows Proprietary Fund Types For the Year Ended June 30, 2018

	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	\$ 7,268,376	\$ (194,849)	\$ 138,656	\$ 7,212,183	\$ 2,860,496
Cash Payments to Vendors	(1,903,113)	(168,072)	(131,372)	(2,202,557)	(1,090,474)
Cash Paid to Employees	(1,656,197)	(6,166)	(76,731)	(1,739,094)	(1,438,951)
Net Cash Provided (Used) by Operating Activities	<u>3,709,066</u>	<u>(369,087)</u>	<u>(69,447)</u>	<u>3,270,532</u>	<u>331,071</u>
Cash Flows From Noncapital and Related Financing Activities:					
Local Sources	-	447,903	-	447,903	-
Other Revenue (Expense)	(3,075)	(750)	-	(3,825)	-
Operating Transfers In	4,994,386	315,600	121,100	5,431,086	562,600
Operating Transfers Out	(3,916,079)	-	(404,200)	(4,320,279)	(684,800)
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>1,075,232</u>	<u>762,753</u>	<u>(283,100)</u>	<u>1,554,885</u>	<u>(122,200)</u>
Cash Flows from Capital and Related Financing Activities:					
Purchase of Capital Assets	(990,435)	(12,730)	(22,075)	(1,025,240)	(205,642)
Debt Proceeds	436,179	-	-	436,179	-
Interest Payments	(892,285)	(78,966)	-	(971,251)	-
Principal Payments	(3,478,742)	(331,610)	-	(3,810,352)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(4,925,283)</u>	<u>(423,306)</u>	<u>(22,075)</u>	<u>(5,370,664)</u>	<u>(205,642)</u>
Cash Flows From Investing Activities:					
(Purchase) of Investments	(4,016,333)	-	-	(4,016,333)	-
Interest Income	33,640	96	8,173	41,909	9,935
Net Cash Provided (Used) by Investing Activities	<u>(3,982,693)</u>	<u>96</u>	<u>8,173</u>	<u>(3,974,424)</u>	<u>9,935</u>
Net Increase (Decrease) in Cash and Equivalents	(4,123,678)	(29,544)	(366,449)	(4,519,671)	13,164
Cash and Equivalents - Beginning of the Year	5,620,797	30,370	930,993	6,582,160	1,109,781
Cash and Equivalents - End of the Year	<u>\$ 1,497,119</u>	<u>\$ 826</u>	<u>\$ 564,544</u>	<u>\$ 2,062,489</u>	<u>\$ 1,122,945</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 2,136,950	\$ (277,141)	\$ (78,095)	\$ 1,781,714	\$ 157,571
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	1,685,749	143,409	6,010	1,835,168	195,257
Amortization	11,374	(9,625)	-	1,749	-
Change in Assets and Liabilities:					
(Increase) Decrease in Assets:					
Accounts Receivable	(173,683)	(225,499)	-	(399,182)	(825)
Special Assessments Receivable	(5,725)	-	-	(5,725)	-
Inventory	(31,430)	-	-	(31,430)	(81,161)
Other Assets	(25)	-	-	(25)	6,005
Increase (Decrease) in Liabilities:					
Accounts Payable	10,041	2,008	(17)	12,032	43,683
Accrued Liabilities	82,165	(1,170)	529	81,524	9,359
Compensated Absences	(6,350)	(1,069)	2,126	(5,293)	1,182
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,709,066</u>	<u>\$ (369,087)</u>	<u>\$ (69,447)</u>	<u>\$ 3,270,532</u>	<u>\$ 331,071</u>

See accompanying notes to financial statements.

City of Sault Ste. Marie, Michigan

**Reconciliation of the Statement of Revenues, Expenses,
and Changes in Net Position of Proprietary Funds
to the Statement of Activities
For the Year Ended June 30, 2018**

Net changes in fund balances - total proprietary funds \$ 2,407,257

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

Internal Service Funds are included as business-type activities. -

Changes in net position of business-type activities \$ 2,407,257

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	<u>Employee Retirement Plan</u>	<u>Agency Funds</u>
ASSETS:		
Cash and Equivalents - Unrestricted	\$ -	\$ 5,854
Total Cash and Equivalents	<u>-</u>	<u>5,854</u>
Investments, at fair value:		
Mutual Funds	12,517,228	2,758,759
Equity Securities	<u>3,200,390</u>	<u>668,043</u>
Total Investments	<u>15,717,618</u>	<u>3,426,802</u>
Prepays	<u>154,725</u>	
TOTAL ASSETS	<u><u>\$ 15,872,343</u></u>	<u><u>\$ 3,432,656</u></u>
LIABILITIES:		
Accrued Liabilities	<u>\$ 7,041</u>	<u>\$ 3,432,656</u>
TOTAL LIABILITIES	<u>7,041</u>	<u><u>\$ 3,432,656</u></u>
NET POSITION:		
Held in Trust for Pension Benefits and Other Purposes	<u><u>\$ 15,865,302</u></u>	

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018**

	<u>Employee Retirement Plan</u>
ADDITIONS:	
Contributions:	
Employer and Employee	\$ 1,629,795
Total Contributions	<u>1,629,795</u>
Investment Earnings:	
Net Increase (Decrease) in Fair Value of Investments	286,190
Interest, Dividends	<u>493,781</u>
Total Investment Earnings	<u>779,971</u>
Total Additions	<u>2,409,766</u>
DEDUCTIONS:	
Benefits	1,864,307
Administrative Expenses	<u>91,509</u>
Total Deductions	<u>1,955,816</u>
Change in Net Position	453,950
Net Position, Beginning of the Year	<u>15,411,352</u>
Net Position, End of the Year	<u><u>\$ 15,865,302</u></u>

Component Units

City of Sault Ste. Marie, Michigan

**Statement of Net Position
Component Units
June 30, 2018**

	EDC	BRA	DDA	TIFA III	LDFA	Totals
ASSETS:						
Cash and Equivalents - Unrestricted	\$ 515,918	\$ 135,750	\$ 340,277	\$ 599,659	\$ 141	\$ 1,591,745
Accounts Receivable	5,404	-	31,182	-	-	36,586
Special Assessments Receivable	-	-	18,247	-	-	18,247
Debt Guarantee Receivable	-	-	-	-	43,581	43,581
Capital Assets Not Depreciated	20,000	-	-	-	-	20,000
Capital Assets (Net of Accumulated Depreciation)	40,090	-	-	-	-	40,090
TOTAL ASSETS	581,412	135,750	389,706	599,659	43,722	1,750,249
DEFERRED OUTFLOWS OF RESOURCES						
Pension Items	5,867	-	2,907	-	-	8,774
LIABILITIES:						
Accounts Payable	25,730	7,916	3,961	-	-	37,607
Accrued Liabilities	-	-	3,127	-	-	3,127
Due to Other Governmental Units	-	-	-	-	-	-
Debt Guarantee Liabilities	-	-	339,834	43,581	-	383,415
Net Pension Liability	76,729	-	33,960	-	-	110,689
Compensated Absences - due in more than one year	7,650	-	9,079	-	-	16,729
TOTAL LIABILITIES	110,109	7,916	389,961	43,581	-	551,567
DEFERRED INFLOWS OF RESOURCES						
Pension Items	4,015	-	2,652	-	-	6,667
TOTAL DEFERRED INFLOWS OF RESOURCES	4,015	-	2,652	-	-	6,667
NET POSITION:						
Net Investment in Capital Assets	60,090	-	-	-	-	60,090
Unrestricted	413,065	127,834	-	556,078	43,722	1,140,699
TOTAL NET POSITION	\$ 473,155	\$ 127,834	\$ -	\$ 556,078	\$ 43,722	\$ 1,200,789

**Statement of Activities
Component Units
For the Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position					
		Charges for Services	Operating Grants and Contributions	EDC	BRA	DDA	TIFA III	LDFA	Total
EDC:									
Economic Development	\$ 328,741	\$ 97,801	\$ -	\$ (230,940)	\$ -	\$ -	\$ -	\$ -	\$ (230,940)
BRA:									
Economic Development	29,490	-	-	-	(29,490)	-	-	-	(29,490)
DDA:									
Economic Development	724,310	180,717	120,564	-	-	(423,029)	-	-	(423,029)
TIFA III:									
Economic Development	224,131	-	62,596	-	-	-	(161,535)	-	(161,535)
LDFA:									
Economic Development	125,152	-	-	-	-	-	-	(125,152)	(125,152)
Total Component Units	<u>\$ 1,431,824</u>	<u>\$ 278,518</u>	<u>\$ 183,160</u>	<u>(230,940)</u>	<u>(29,490)</u>	<u>(423,029)</u>	<u>(161,535)</u>	<u>(125,152)</u>	<u>(970,146)</u>
General Revenues and Transfers:									
Taxes				-	36,093	160,777	127,011	18,681	342,562
Local Sources				119,500	-	63,000	-	79,300	261,800
Investment Earnings				4,117	1,535	1,005	965	90	7,712
Other				137,457	-	58,366	-	-	195,823
Total General Revenues and Transfers				<u>261,074</u>	<u>37,628</u>	<u>283,148</u>	<u>127,976</u>	<u>98,071</u>	<u>807,897</u>
Change in Net Position				30,134	8,138	(139,881)	(33,559)	(27,081)	(162,249)
Net Position - Beginning				443,021	119,696	139,881	589,637	70,803	1,363,038
Net Position - Ending				<u>\$ 473,155</u>	<u>\$ 127,834</u>	<u>\$ -</u>	<u>\$ 556,078</u>	<u>\$ 43,722</u>	<u>\$ 1,200,789</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Introduction***

The *City of Sault Ste. Marie* (the "City") was founded in 1668 with the City Charter adopted by special election to be effective May 1, 1952. The City operates under a Commission-Manager form of government and provides the following services as authorized by its Charter: Public safety (police and fire), public works (streets and sanitation), health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

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. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to provide financing for the construction of buildings, parking lots, recreational facilities and to acquire the necessary sites for such facilities. Separate financial statements for the Building Authority are not required or issued.

Discretely Presented Component Units

The Economic Development Corporation (the "EDC"), Downtown Development Authority (the "DDA"), TIFA III and Local Development Financing Authority (the "LDFA") are reported in a separate column to emphasize they are 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, 2345 Meridian Street, Sault Ste. Marie, MI 49783.

The Sault Ste. Marie Brownfield Redevelopment Authority (the "BRA"), is an entity legally separate from the City. The BRA is governed by a board appointed by the City Commission and is reported as a component unit because it imposes a specific financial benefit to the City and services exclusively or almost exclusively benefit the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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*.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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)

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, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

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 position/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 \$143,881.

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."

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Position 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***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. Governmental activities compensated absences are reported as committed funds in the General Fund.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

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

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has items that qualify for reporting in this category.

Unearned Revenues

Unearned revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues

Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by City management.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 within the next year and the permanent funds.
- 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 \$585,657 for Carbide Dock, \$592,927 for Capital Commitments, \$10,815 for TRIDENT and \$596,075 for compensated absences 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.
- Minimum Restricted Fund Balance: The city will maintain a minimum unrestricted fund balance in its General Fund ranging from 15% to 20% of the current fiscal year's operational expenditures and routine and recurring outgoing transfers.
- Minimum Unassigned Fund Balance Plus Accrued Compensated Absences: The City shall maintain a minimum unassigned fund balance plus accrued compensated absences at 8 percent or higher. Both minimum fund balances are to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 function 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

	Primary Government		Component Unit		Fiduciary Funds	
	Deposits	Investments	Deposits	Investments	Deposits	Investments
Carrying Amounts						
Cash & Equivalents						
Unrestricted	\$ 9,540,947	\$ -	\$ 992,086	\$ -	\$ 5,854	\$ -
Restricted	3,603,303		-	-		
Investments						
Restricted	-	5,162,241	-	-	-	19,144,420
	<u>\$ 13,144,250</u>	<u>\$ 5,162,241</u>	<u>\$ 992,086</u>	<u>\$ -</u>	<u>\$ 5,854</u>	<u>\$ 19,144,420</u>

Cash is restricted in the amount of \$1,391,771 for the Water and Sewer fund, \$255,153 for the Stock and Equipment fund, and \$14,402 for the Employee Health Insurance fund, \$553,987 for the Sewer Plant and Water Equipment Replacement funds and \$582,838 for the Governor Osborn Trust. Investments are restricted in the amount of \$306,359 for the General Fund, \$222,914 for the Seal Estate Trust, and \$635,583 for the Governor Osborn Trust.

At June 30, 2018, the City's investments consisted of the following

Investment Type	Market Value	Maturity (Years)	Standard and Poors Rating	Concentration
Money Markets	\$ 3,105,364	-	Unrated	13%
Equity Mutual Funds	3,868,433	-	Unrated	16%
Investment Pools	1,577,247	-	AAAm	6%
U.S. Treasuries:	2,113,697	-	AAA	9%
Current	-	132,974		
One to Five Years	-	648,507		
Six to Ten Years	-	382,277		
Over Ten Years	-	949,939		
Stocks	8,241,717	-	Unrated	34%
Exchange Traded Funds	4,253,760	-	Unrated	18%
Corporate Bonds:	1,146,443	-	BBB+	4%
Current	-	51,176	to	
One to Five Years	-	572,013	AAA	100%
Six to Ten Years	-	363,060		
Over Ten Years	-	160,194		
Total Portfolio	<u>\$ 24,306,661</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, \$12,355,318 of the City's bank balance of \$13,921,315 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. All investments are in the name of the City and are uncollateralized.

Fair value measurement. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the measurements required judgement and considers factors specific to each asset or liability.

The City has the following fair value measurements as of June 30, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Markets	\$ 3,105,364	-	-	3,105,364
Debt Securities:				
U.S. Treasuries	2,113,697	-	2,113,697	-
Corporate Bonds	1,146,443	-	1,146,443	-
Investment Pools	1,577,247	-	-	1,577,247
Equity Mutual Funds	3,868,433	3,868,443	-	-
Exchange Traded Funds	4,253,760	-	4,253,760	-
Stocks	<u>8,241,717</u>	<u>8,241,717</u>	-	-
Totals	<u>\$ 24,306,661</u>	<u>\$ 12,110,150</u>	<u>\$ 7,513,900</u>	<u>\$ 4,682,611</u>

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

There have been no changes in the methodologies used at June 30, 2018.

U.S. government bonds, municipal bonds and corporate bonds: Valued at fair value using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Mutual funds: Valued at the net asset value ("NAV") of shares held by the City at year end.

Equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Statutory Authority:

Public Act 152, entitled "An act relative to the investment of funds of public corporations of the state; and to validate certain investments," by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation 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, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- 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 subdivision (a).
- e. Bankers' acceptances 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, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 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>				
Land	\$ 2,773,645	\$ -	\$ (2,040)	\$ 2,771,605
Construction in progress	<u>2,586,905</u>	<u>1,921,727</u>	<u>(2,586,905)</u>	<u>1,921,727</u>
Subtotal	<u>5,360,550</u>	<u>1,921,727</u>	<u>(2,588,945)</u>	<u>4,693,332</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	19,883,523	29,464	-	19,912,987
Land improvements	7,109,916	23,911	-	7,133,827
Furniture and equipment	9,808,426	501,300	(674,098)	9,635,628
Intangibles-easements	69,969	-	-	69,969
Infrastructure	<u>68,749,340</u>	<u>2,557,902</u>	<u>-</u>	<u>71,307,242</u>
Subtotal	<u>105,621,174</u>	<u>3,112,577</u>	<u>(674,098)</u>	<u>108,059,653</u>
<i>Less accumulated depreciation on:</i>				
Buildings and improvements	(6,172,668)	(537,532)	(35,129)	(6,745,329)
Land improvements	(3,647,897)	(299,231)	35,129	(3,911,999)
Furniture and equipment	(8,207,735)	(376,018)	600,965	(7,982,788)
Intangibles-easements	(29,095)	(7,841)	-	(36,936)
Infrastructure	<u>(40,911,981)</u>	<u>(2,250,160)</u>	<u>-</u>	<u>(43,162,141)</u>
Subtotal	<u>(58,969,376)</u>	<u>(3,470,782)</u>	<u>600,965</u>	<u>(61,839,193)</u>
Net Capital Assets Being Depreciated	<u>46,651,798</u>	<u>(358,205)</u>	<u>(73,133)</u>	<u>46,220,460</u>
Capital Assets - Net	<u>\$ 52,012,348</u>	<u>\$ 1,563,522</u>	<u>\$ (2,662,078)</u>	<u>\$ 50,913,792</u>

NOTE 4 - CAPITAL ASSETS (Continued)

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

Governmental Activities		
General Government		\$ 138,377
Public Safety		170,956
Public Works		2,372,029
Recreation and Culture		594,163
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>195,257</u>
Total Depreciation Expense - Governmental Activities		<u>\$ 3,470,782</u>

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 207,049	\$ -	\$ -	\$ 207,049
Construction in Progress	<u>11,960,408</u>	<u>433,095</u>	<u>(11,586,007)</u>	<u>807,496</u>
Subtotal	<u>12,167,457</u>	<u>433,095</u>	<u>(11,586,007)</u>	<u>1,014,545</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	23,767,871	34,815	-	23,802,686
Equipment	2,416,187	504,661	(11,149)	2,909,699
Water and sewer system	<u>56,095,635</u>	<u>11,638,676</u>	<u>-</u>	<u>67,734,311</u>
Subtotal	<u>82,279,693</u>	<u>12,178,152</u>	<u>(11,149)</u>	<u>94,446,696</u>
<i>Less accumulated depreciation on:</i>				
Buildings and improvements	(13,467,404)	(478,049)	-	(13,945,453)
Equipment	(1,324,958)	(121,336)	11,149	(1,435,145)
Water and sewer system	<u>(17,190,319)</u>	<u>(1,235,783)</u>	<u>-</u>	<u>(18,426,102)</u>
Subtotal	<u>(31,982,681)</u>	<u>(1,835,168)</u>	<u>11,149</u>	<u>(33,806,700)</u>
Net Capital Assets Being Depreciated	<u>50,297,012</u>	<u>10,342,984</u>	<u>-</u>	<u>60,639,996</u>
Capital Assets - Net	<u>\$ 62,464,469</u>	<u>\$ 10,776,079</u>	<u>\$ (11,586,007)</u>	<u>\$ 61,654,541</u>
Business - type Activities				
Water and sewer			\$ 1,685,749	
Parking 576 and 577			<u>149,419</u>	
Total Depreciation Expense – Business - type Activities			<u>\$ 1,835,168</u>	

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	61,535	-	-	61,535
Subtotal	80,424	-	-	80,424
<i>Less accumulated depreciation:</i>				
Vehicles	(18,889)	-	-	(18,889)
Equipment	(19,218)	(2,227)	-	(21,445)
Subtotal	(38,107)	(2,227)	-	(40,334)
Net Capital Assets Being Depreciated	42,317	(2,227)	-	40,090
Capital assets – Net	\$ 62,317	\$ (2,227)	\$ -	\$ 60,090

Depreciation expense was charged to economic development in the amount of \$2,227.

NOTE 5 - TAX ABATEMENTS

The City of Sault Ste. Marie, entered into certain agreements during the year that involve tax abatements; the following table outlines the key information regarding the entities involved and the type and amounts of City taxes abated during the year ending June 30, 2018.

<u>Contracted Entity</u>	<u>Program</u>	<u>Statutory Authority</u>	<u>Tax Abated</u>	<u>Total</u>	<u>Commitment by Contracted Entity</u>
R & B Electronics, Inc.	IFT	ACT 198	Prop. Tax	\$ 3,822	Development
Hoover Precision Products	IFT	ACT 198	Prop. Tax	22,177	Development
Hoover Precision Products	IFT	ACT 198	Prop. Tax	4,703	Development
Weir's furniture Center, Inc.	Brownfield	ACT 198	Prop. Tax	808	Development
Soo Properties LLC/Soo Super Value	Brownfield	ACT 198	Prop. Tax	27,990	Development
Superb Super Markets, Inc.	Brownfield	ACT 198	Prop. Tax	10,869	Development
McKinley Manor	Brownfield	ACT 198	Prop. Tax	55,709	Development
Ashmun Hill Retail Center, LLC	Brownfield	ACT 198	Prop. Tax	6,065	Development
West Bridge Apts.	Pilots Housing	ACT 198	Prop. Tax	33,202	Development
Avery Square	Pilots Housing	ACT 198	Prop. Tax	58,601	Development
Sault Housing	Pilots Housing	ACT 198	Prop. Tax	159,811	Development
Edge of the Woods	Pilots Housing	ACT 198	Prop. Tax	35,137	Development
Bridge Village	Pilots Housing	ACT 198	Prop. Tax	81,160	Development
Wood Creek	Pilots Housing	ACT 198	Prop. Tax	29,109	Development
Wood Creek	Pilots Housing	ACT 198	Prop. Tax	16,054	Development
Park Place	Pilots Housing	ACT 198	Prop. Tax	8,640	Development
Total Abated				<u>\$ 553,857</u>	

NOTE 6 - 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 position/balance sheet for governmental funds. Interfund transactions resulting in Interfund Receivables and Payables are as follows:

	DUE TO OTHER FUNDS		
	Capital Projects	Nonmajor Governmental	Total
DUE FROM OTHER FUNDS			
General Fund	\$ -	\$ -	\$ -
Nonmajor Governmental	471,523	112,497	584,020
Total	\$ 471,523	\$ 112,497	\$ 584,020

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	Water and Sewer	Nonmajor Enterprise	Internal Service	Total
TRANSFERS IN									
General	\$ 29,400	\$ -	\$ -	\$ -	\$ 33,928	\$ -	\$ -	\$ 199,100	\$ 262,428
Major Streets	-	-	-	-	35,000	-	-	-	35,000
Local Streets	-	156,000	-	-	65,000	-	-	-	221,000
Capital Projects 2	12,500	-	-	-	77,900	25,000	178,500	-	293,900
Nonmajor Governmental	303,200	35,700	68,400	-	640,207	76,379	-	-	1,123,886
Water and Sewer	-	-	-	377,368	579,218	3,732,400	225,700	79,700	4,994,386
Parking Deck	293,100	-	-	-	-	22,300	-	200	315,600
Nonmajor Enterprise	57,000	-	-	-	-	60,000	-	3,200	121,100
Internal Service	-	-	-	-	160,000	-	-	402,600	562,600
Total	\$ 696,100	\$ 191,700	\$ 68,400	\$ 377,368	\$ 1,591,253	\$ 3,916,079	\$ 404,200	\$ 684,800	\$ 7,929,900

NOTE 6 - 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.

The Seal Estate Trust and Governor Osborn Trust Funds transferred funds to the Capital Projects fund for the Pullar Community Building Renovations and Expansion Project. The advance of funds is allowed under the respective trust documents. The funds will be repaid to the Seal Estate Trust Fund in annual installments of \$55,200, including interest of 3% over ten years with the final payment due December 31, 2023. Funds will be repaid to the Governor Osborn Trust Fund in annual installments of \$60,600, including 3% interest over ten years with the final payment due December 31, 2023. Future receipts are as follows:

Augusta H. Seal Trust

	<u>Total Receipts</u>	<u>Principal</u>	<u>Interest</u>
6/30/2019	\$ 54,486	\$ 47,316	\$ 7,170
6/30/2020	54,478	48,755	5,723
6/30/2021	54,428	50,223	4,205
12/31/2023	<u>110,713</u>	<u>106,885</u>	<u>3,828</u>
	<u>\$ 274,105</u>	<u>\$ 253,179</u>	<u>\$ 20,926</u>

Governor Chase S. Osborn Trust

	<u>Total Receipts</u>	<u>Principal</u>	<u>Interest</u>
6/30/2019	\$ 59,838	\$ 50,537	\$ 9,301
6/30/2020	59,833	52,074	7,759
6/30/2021	59,772	53,639	6,133
12/31/2023	<u>175,536</u>	<u>167,328</u>	<u>8,208</u>
	<u>\$ 354,979</u>	<u>\$ 323,578</u>	<u>\$ 31,401</u>

NOTE 7 - 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/ Adjustments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
<u>Governmental Activities</u>					
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%.	405,000	-	60,000	345,000	65,000
2016 LTGO Refunding Bonds of 2010 LTGO Build America Bonds, maturing serially to 2029 due annually with payments ranging from \$200,000 to \$355,000 including interest ranging from 2% to 3%.	3,500,000	-	205,000	3,295,000	220,000
2006 General Obligation Municipal Installment Purchase Contract Note, maturing serially to 2021 in semiannual installments of \$31,518 including interest at 4.60%.	259,677	-	53,993	205,684	54,378
2012 LTGO Local Development Bonds, maturing serially to 2024 in annual installments ranging from \$10,000 to \$155,000 and bearing interest ranging from 2.25% to 4.2%.	<u>740,000</u>	<u>-</u>	<u>65,000</u>	<u>675,000</u>	<u>75,000</u>
Total governmental activities – bonds payable	4,904,677	-	383,993	4,520,684	414,378
2016 Refunding Bond Premium	119,349	-	9,484	109,865	9,485
2016 Refunding – Deferred Gain on Refunding	40,046	-	3,183	36,863	3,182
Compensated Absences – (net)	<u>594,953</u>	<u>1,122</u>	<u>-</u>	<u>596,075</u>	<u>157,700</u>
Total Governmental Activities – Long-Term Debt	<u>5,659,025</u>	<u>1,122</u>	<u>396,660</u>	<u>5,263,487</u>	<u>584,745</u>

NOTE 7 - LONG-TERM DEBT (Continued)

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases/ Adjustments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
Note payable to bank, monthly installments of \$6,311, 2.0%, secured, by equipment.	-	359,800	40,258	319,542	69,895
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 2.5%.	760,000	-	245,000	515,000	255,000
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%.	690,000	-	225,000	465,000	230,000
2015 Downtown Development Bonds, maturing serially to 2027 in annual installments ranging from \$280,000 to \$515,000 bearing interest ranging from 2.0% to 3.0%.	4,115,000	-	325,000	3,790,000	335,000
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%.	1,375,000	-	185,000	1,190,000	190,000
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%.	1,275,000	-	170,000	1,105,000	175,000
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%.	625,607	-	100,000	525,607	100,000

NOTE 7 - 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)					
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%.	65,000	-	65,000	-	-
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%.	70,000	-	35,000	35,000	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%.	435,000	-	40,000	395,000	40,000
2013 Chippewa County CSO Refunding Bonds, Maturing serially to 2029 in annual installments Ranging from \$310,000 to \$650,000 and bearing Interest ranging from 2% to 4.59%.	6,050,000	-	340,000	5,710,000	350,000
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%.	4,077,707	-	532,424	3,545,283	215,000
2011 Water Supply and Sewage Disposal System Refunding Bonds, maturing serially to 2022 in annual installments ranging from \$250,000 to \$475,000 and bearing interest ranging from 2.0% to 3.625%.	2,405,000	-	685,000	1,720,000	705,000
2012 LTGO Refunding Bonds, maturing aerially to 2024 in annual installments ranging from \$180,000 to \$310,000 and bearing interest ranging from 2.0% to 4.0%.	1,950,000	-	215,000	1,735,000	225,000
2014 Clean Water Program State Revolving Fund Program CSO Water Supply and Sewage Disposal System Revenue Bond, maturing serially to 2036 in annual installments ranging from \$285,000 to \$460,000, beginning 2018, and bearing interest at 2.50%.	6,626,549	45,986	285,000	6,387,535	295,000

NOTE 7 - 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)					
2014 Drinking Water Revolving Fund Program CSO General Water Supply and Sewage Disposal System Revenue Bond, maturing serially to 2036 in annual installments ranging from \$200,000 to \$320,000, beginning 2018, and bearing interest at 2.50%.	4,532,022	30,393	200,000	4,362,415	205,000
2015 LTGO Capital Improvement Bonds, Maturing aerially to 2035 in annual Installments ranging from \$90,000 to \$150,000 and bearing interest ranging from 2.0% to 3.25%.	<u>2,100,000</u>	-	<u>90,000</u>	<u>2,010,000</u>	<u>95,000</u>
Total business-type activities – bonds payable	37,151,885	436,179	3,777,682	33,810,382	3,519,895
2011 Refunding Bond Premium	44,746	-	8,950	35,796	8,950
2013 Refunding Bond Premium	201,559	-	15,505	186,054	15,505
2015 Refunding Bond Premium	71,614	-	6,610	65,004	6,610
2015 Capital Improvement Bond Premium	28,634	-	1,605	27,029	1,605
2013 Refunding – Deferred loss on refunding	(147,863)	-	(11,374)	(136,489)	(11,374)
2015 Refunding – Deferred gain on refunding	104,265	-	9,625	94,640	9,625
Compensated Absences – (net)	<u>160,168</u>	-	<u>5,293</u>	<u>154,875</u>	<u>52,459</u>
Total Business – type Activities – Long-Term Debt	<u>37,615,008</u>	<u>436,179</u>	<u>3,813,896</u>	<u>34,237,291</u>	<u>3,603,275</u>
Total Long-Term Debt	<u>\$ 43,274,033</u>	<u>\$ 437,301</u>	<u>\$ 4,210,556</u>	<u>\$ 39,500,778</u>	<u>\$ 4,188,020</u>

NOTE 7 - LONG-TERM DEBT (Continued)

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
2019	\$ 427,045	\$ 128,168	\$ 3,550,816	\$ 917,000
2020	449,576	116,150	3,177,235	829,154
2021	472,223	103,362	2,808,706	745,620
2022	477,508	89,451	2,880,194	671,244
2023	477,667	76,247	2,903,856	591,295
2024-2028	1,653,335	216,935	10,232,154	1,932,768
2029-2033	710,058	21,000	6,431,569	659,381
2034-2036	-	-	2,097,886	61,458
Total	<u>\$ 4,667,412</u>	<u>\$ 751,313</u>	<u>\$ 34,082,416</u>	<u>\$ 6,407,920</u>

Debt Guarantee Liabilities

In 2005, the DDA component unit guaranteed the 20 year, \$6 million Downtown Development Bonds, refunded as the 2015 DDA Refunding Bonds, for the City's parking deck. The bonds mature annually through 2026, with semi-annual interest payments. In the event the City's parking deck fund is unable to make the payments, the DDA component unit is required to make the payment. The City determined it was more likely than not the DDA component unit would be required to pay a portion of the remaining 2015 DDA Refunding Bonds based on this guarantee. The amount of liability recognized is the best estimate of the discounted present value of future outflows expected to be incurred as a result of the guarantee.

The liability recognized in the DDA component unit and receivable recognized in the City's Parking Deck Fund at June 30, 2018 is as follows:

	Beginning Balance	Increases/ Adjustments	Decreases	Ending Balance	Due Within One Year
Downtown Development Authority	<u>\$ 109,910</u>	<u>\$ 229,924</u>	<u>\$ -</u>	<u>\$ 339,834</u>	<u>\$ -</u>

In 2012, the TIFA component unit guaranteed the 20 year, \$900,000 LTGO Local Development Bonds, for the LDFA component unit Breeder building debt. The bonds mature annually through 2024 with semi-annual interest payments. In the event the LDFA Component Unit is unable to make the payments, the TIFA component unit is required to make the payment. The LDFA determined it was more likely than not the TIFA component unit would be required to pay a portion of the remaining 2012 LTGO Local Development Bonds based on this guarantee. The amount of liability recognized is the best estimate of the discounted present value of future outflows expected to be incurred as a result of the guarantee.

The liability recognized in the TIFA III Component Unit and receivable recognized in the LDFA Component Unit at June 30, 2018 is as follow:

LDFA Component Unit	<u>\$ 75,833</u>	<u>\$ -</u>	<u>\$ 32,252</u>	<u>\$ 43,581</u>	<u>\$ -</u>
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NOTE 7 - 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 union's collective bargaining units and nonunion groups, 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 one day per month of service. All unused sick time is used to calculate a payout, generally in January 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 \$767,678 at June 30, 2018. Accrued compensated absences are generally liquidated by general fund for governmental activities, water and sewer fund for business-type activities, and EDC and DDA for component units.

NOTE 8 - 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.

NOTE 8 - PROPERTY TAXES (Continued)

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 June 30, 2018 totaled \$269,040,708. The tax levy for that year was based on the following rates:

	Millage Rate Used
General Operating	16.8139
Police/Fire Pension	.4502
Solid Waste	<u>.5632</u>
Total	<u><u>22.8273</u></u>

NOTE 9 - 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 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Description of Plan and Plan Assets

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.25% and 1.5% for employees times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2017.

General Information about the Pension Plan

The City's defined benefit pension plan provides certain retirement, death and disability benefits to plan members and beneficiaries. The City's plan covers the City, EDC and DDA employees. The City participates in the Municipal Employees Retirement System of Michigan ("MERS"), an agent multiple employer, State-wide public employees pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

The City adopted defined benefit and defined contribution plans for all new City employees hired in 2012 and later with the exception of police and fire employees. Employees may participate in both the defined benefit and defined contribution plan concurrently. This report may be obtained accessing the MERS website at www.mersofmich.com.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

01 – Pub Wrks: Closed to new hires, linked to Division 14

	<u>2017 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	3 years
Employee Contributions	5.68% under \$4,200; 7.68% over \$4,200
Act 88:	Yes (Adopted 9/18/1972)

02 – Police/Clerical: Closed to new hires, linked to Division 20

	<u>2017 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	3 years
Employee Contributions	6.17%
Act 88:	Yes (Adopted 9/18/1972)

10 – Non Union: Closed to new hires, linked to Division 13

	<u>2017 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 Years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	3 years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 9/18/1972)

11 – Clerical: Closed to new hires, linked to Division 15

	<u>2017 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 Years
Early Retirement (Unreduced):	50/25
Early Retirement (Reduced):	55/15
Final Average Compensation:	3 years
Employee Contributions	6.17%
Act 88:	Yes (Adopted 9/18/1972)

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

13 – Non Union after 12/01/12: Open Division, linked to Division 10

	<u>2017 Valuation</u>
Benefit Multiplier:	1.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	3 years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 9/18/1972)

14 – Public Works after 09/01/12: Open Division, linked to Division 01

	<u>2017 Valuation</u>
Benefit Multiplier:	1.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	3 years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 9/18/1972)

15 – Clerical after 09/01/2012: Open Division, linked to Division 11

	<u>2017 Valuation</u>
Benefit Multiplier:	1.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	3 years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 9/18/1972)

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

20 – Police Clerical after 07/01/12: Open Division, linked to Division 02

	<u>2017 Valuation</u>
Benefit Multiplier:	1.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	6 Years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	3 years
Employee Contributions	4.70%
Act 88:	Yes (Adopted 9/18/1972)

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	90
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>76</u>
	175

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 4.70% to 7.68% based on annual payroll for open divisions.

Defined Contribution Plan

Employer contributions to the system are dependent on the plan elected by the participant.

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5% percent
Salary increases	3.75% in the long-term
Investment rate of return	7.75 % net of investment expense including inflation

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate. The discount rate used to measure the total pension liability is 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Changes in the Net Pension Liability

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	\$ 29,833,182	\$ 19,856,088	\$ 9,977,094
Service cost	391,240	-	391,240
Interest on total pension liability	2,319,681	-	2,319,681
Changes in benefits	-	-	-
Difference between expected and actual experience	(187,785)	-	(187,785)
Changes in assumptions	-	-	-
Employer contributions	-	622,125	(622,125)
Employee contributions	-	297,745	(297,745)
Net investment income	-	2,563,318	(2,563,318)
Benefit payments, including employee refunds	(2,065,578)	(2,065,578)	-
Administrative expense	-	(40,675)	40,675
Other changes	-	-	-
Net changes	457,558	1,376,935	(919,377)
Balances as of December 31, 2017	\$ 30,290,740	\$ 21,233,023	\$ 9,057,717

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's net pension liability	\$12,117,285	\$9,057,717	\$6,448,221

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City recognized pension expense of \$1,293,262. At June 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 251,080
Changes in assumptions	356,131	-
Net difference between projected and actual earnings on pension plan investments	-	357,126
Contributions subsequent to the measurement date	336,402	-
Total	\$ 692,533	\$ 608,206

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

Year Ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	\$ 356,131	\$ (24,313)
2020	-	50,393
2021	-	377,668
2022	-	204,458
Total	\$ 356,131	\$ 608,206

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

General Information about the Pension Plan

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 Plan has not been issued.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Benefits Provided

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 the three-year average final compensation times the first 25 years of credited service, plus 1% of average final compensation for years in excess of 25 years of service. Police patrol employees who retire with 20 or more years of service regardless of age or age 60, regardless of years of service are entitled to retirement benefits equal to 2.8% of the three-year average final compensation times first 25 years of service with a maximum of 70% of average final compensation. Police sergeants hired prior to July 1, 2002 who retire with 25 or more years of service regardless of age or age 60, regardless of service are entitled to a straight life pension equal to 2.8% of the three-year average final compensation times years 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.

For all bargaining units, no benefit shall exceed 100% of the base pay for the member's position at the time of retirement.

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 and for duty disability with 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.

Employees Covered by Benefit Terms

Membership consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	61
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>41</u>
	<u><u>102</u></u>

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)***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 contribution 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 reasonably estimates fair value.

Funding Policy

Covered employees contribute 5.6% (Firefighters and Police Sergeants) to 7.50% (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.

Contributions and Net Pension Liability

The annual required contribution for the current year and the City's Net Position Liability were determined as part of a June 30, 2017 actuarial valuation using the entry age actuarial cost method. See the required supplementary information for a schedule of contributions. The actuarial assumptions included: (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 3.5% to 7.3% per year. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investment 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, 2018 was 18 years.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class asset. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expecting inflation. The target allocations were estimated based on the asset allocation as of June 30, 2017. Best estimates of arithmetic real rates of return were approximated using expected returns from eight investment consultants. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2017, the best estimates are summarized in the following table:

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.91	(.25)%
Domestic equity – large cap	25.63	4.98
Domestic equity – small cap	25.63	6.17
International equity	10.99	6.02
Emerging markets	10.99	8.74
Domestic corporate fixed income	14.39	0.99
Domestic government fixed income	7.19	0.33
Treasury inflation protected securities	0.00	0.70
High yield bonds	0.00	2.76
Real estate	3.27	4.30
Private equity	0.00	8.16
Hedge funds	0.00	4.20
Other alternatives	0.00	4.17
 Total	 100.00%	
 Total real rate of return		 4.78%

Changes in the Net Pension Liability

	Increases (Decreases)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at June 30, 2016	\$ 28,367,680	\$ 14,343,657	\$ 14,024,023
Service cost	596,556	-	596,556
Interest on total pension liability	2,076,324	-	2,076,324
Changes in benefits	-	-	-
Difference between expected and actual experience	(16,481)	-	(16,481)
Changes in assumptions	2,662,396	-	2,662,396
Employer contributions	-	1,449,806	(1,449,806)
Employee contributions	-	172,054	(172,054)
Net investment income	-	1,293,305	(1,293,305)
Benefit payments, including employee refunds	(1,963,287)	(1,963,287)	-
Administrative expense	-	(29,408)	29,408
Other	-	(9,500)	9,500
 Net changes	 3,355,508	 912,970	 2,442,538
Balances as of June 30, 2017	\$ 31,723,188	\$ 15,256,627	\$ 16,466,561

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Single Discount Rate

A Single Discount Rate ("SDR") of 7.00% was used to measure the total pension liability. This SDR was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine the SDR assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rate and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability to Change in the Discount Rate

The following presents the Plan's net pension liability, calculated using a SDR of 7.00%, as well as what the plan's net pension liability would be if it were calculated using a SDR that is one percent lower or one percent higher

Sensitivity of Net Pension Liability to the Single Discount Rate Assumption

	1% Decrease (6.00%)	Current Single Discount Rate Assumption (7.00%)	1% Increase (8.00%)
Total pension liability	\$35,646,258	\$31,723,188	\$28,471,098
Net Position restricted for pension	(15,256,627)	(15,256,627)	(15,256,627)
Net Pension Liability	20,389,631	16,466,561	13,214,471

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the City recognized pension expense of \$1,684,011. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 237,464
Changes in assumptions	2,024,314	375,971
Net difference between projected and actual earnings on pension plan investments	1,541,130	412,525
Contributions subsequent to the measurement date	1,453,326	-
Total	\$ 5,018,770	\$ 1,025,960

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Net Deferred Outflows of Resources</u>
2019	\$ 494,802
2020	1,095,482
2021	886,170
2022	<u>63,030</u>
Total	<u>\$ 2,539,484</u>

Payable to the Pension Plan

At June 30, 2018, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ending June 30, 2018.

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, 2018.

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 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City administers the Public Employee Health Plan (the "Plan") as a defined contribution, Other Post Employment Benefit plan ("OPEB"). The Plan provides for continuation of medical insurance benefits for certain retirees while the member is alive for a maximum of 15 years, and can be amended by action of the City subject to the applicable collective bargaining and employment agreements. The Plan does not issue a stand alone financial report.

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (Continued)

Funding Policy

The obligations of Plan members are established by action of the City pursuant to the applicable collective bargaining and employment agreements. The required contribution rate of the employer is a fixed amount per participant. The City currently contributes money to the Plan to satisfy annual obligations each year. The costs of administering the Plan are paid by the City.

Annual OPEB Cost and Net OPEB Obligation

Annual contributions are established by each bargaining unit's union agreements, and are carried in the City's agency fund. The City began making distributions in the year ended June 30, 2016 to the Department of Public Works ("DPW") retirees Health Savings Accounts ("HSA") based upon an actuarial valuation of Trust assets. Benefits are paid in an annual stipend of \$404 times the retiree's years of service covered by the Plan in the DPW Union, capped at 25 years, with a maximum annual benefit of \$10,100. Distributions to the DPW retirees' HSA accounts were \$76,698 for the year ended June 30, 2018. Distributions to the Firefighters retiree HSA was \$18,083. Contributions for the Firefighters Union equal \$1,406 for 15 active members and are made annually.

The Police Command Officers Union and Patrol Union had no contributions during fiscal 2018. Contributions of \$1,000 per active member are to be made to the trust.

The total defined contribution liability for the Plan for the year ended June 30, 2018 is \$3,426,801. The liability is carried based on each bargaining unit of the City. The liability for the year ended June 30, 2018.

<u>Bargaining Unit</u>	<u>Defined Contribution Liability</u>
Patrol	\$ 927,072
Police Command	41,647
Public Works	1,890,722
Firefighters	<u>567,360</u>
Total	<u>\$ 3,426,801</u>

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NOTE 13 - PERMANENT INVESTMENTS AND DONOR-RESTRICTED ENDOWMENTS

The Seal Estate Trust Fund, Governor Osborn Trust Fund, and Cemetery Perpetual Care Fund are the City's Permanent Funds. The principal portion of these permanent investments must stay intact, but the earnings on these investments are used to provide for purposes defined by each trust. Earnings on the Cemetery Perpetual Care investments are used solely for the care of lots or improvements to the cemetery with any unused earnings retained in the fund. Provisions of the Seal Estate Trust and Osborn Estate Trust documents require that net distributable income be computed on a cash basis each calendar year. Net distributable income is defined as gross investment revenues collected during the year less all expenses paid for investment activity and costs of administering the trust. Net income of the Seal Estate Trust and Osborn Estate Trust which is not distributed in any calendar year becomes part of the principal of the respective Trust and is not available for subsequent years' distributions.

The trustee must make a mandatory distribution of net distributable income as follows:

Osborn Estate Trust

- 15% to be retained by the trust and added to the trust principal.
- 85% to the City of Sault Ste. Marie, Michigan for historical purposes.
-

Seal Estate Trust

- 10% to be retained by the trust and added to the trust principal.
- 75% to the City of Sault Ste. Marie, Michigan for the exclusive purpose of expansion and/or acquisition of its recreation system and sites.
- The remaining 15% may be distributed to the City of Sault Ste. Marie, Michigan for recreation purposes or retained and added to the principal of the Seal Estate Trust.

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Required Supplementary Information

Schedule of Changes in the City MERS Net Pension Liability and Related Ratios
For the Year Ended June 30, 2018

	Actuarial Date as of December 31			
	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 391,240	\$ 392,951	\$ 397,925	\$ 398,564
Interest	2,319,681	2,283,581	2,181,631	2,128,263
Difference between expected and actual experience	(187,785)	(224,404)	7,844	-
Changes in actuarial assumptions	-	-	1,424,522	-
Benefit payments, including refund of member contributions	(2,065,578)	(1,934,460)	(1,882,908)	(1,876,327)
Other Changes	-	-	(3)	-
Net change in total pension liability	457,558	517,668	2,129,011	650,500
Total pension liability - beginning	29,833,182	29,315,514	27,186,503	26,536,003
Total pension liability - ending	<u>\$ 30,290,740</u>	<u>\$ 29,833,182</u>	<u>\$ 29,315,514</u>	<u>\$ 27,186,503</u>
Plan fiduciary net position				
Contributions - employer	\$ 622,125	\$ 553,169	\$ 527,540	\$ 470,377
Contributions - employee	297,745	370,451	245,595	339,976
Net investment income	2,563,318	2,094,346	(292,975)	1,251,050
Benefit payments, including refunds of member contributions	(2,065,578)	(1,934,460)	(1,882,908)	(1,876,328)
Administrative expense	(40,675)	(41,394)	(43,448)	(45,756)
Other	-	-	(3)	-
Net change in plan fiduciary net position	1,376,935	1,042,112	(1,446,199)	139,319
Plan fiduciary net position - beginning	19,856,088	18,813,976	20,260,175	20,120,856
Plan fiduciary net position - ending	<u>\$ 21,233,023</u>	<u>\$ 19,856,088</u>	<u>\$ 18,813,976</u>	<u>\$ 20,260,175</u>
City's net pension liability - ending	<u>\$ 9,057,717</u>	<u>\$ 9,977,094</u>	<u>\$ 10,501,538</u>	<u>\$ 6,926,328</u>
Plan fiduciary net position as a percentage of the total pension liability	70%	67%	64%	75%
Covered - employee payroll	\$ 3,761,170	\$ 3,725,549	\$ 3,759,204	\$ 3,746,510
City's net pension liability as a percentage of covered-employee payroll	241%	268%	279%	185%

**Schedule of City MERS Employer's Contributions
For the Year Ended June 30, 2018**

	Actuarial Date as of December 31			
	2017	2016	2015	2014
Actuarially determined contribution	\$ 622,125	\$ 553,169	\$ 527,540	\$ 471,739
Contributions in relation to the actuarially determined contribution	622,125	553,169	527,540	471,739
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered - employee payroll	\$ 3,761,170	\$ 3,725,549	\$ 3,759,204	\$ 3,746,510
Contributions as a percentage of covered-employee payroll	17%	15%	14%	13%

Notes to Schedule:

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	22 years
Asset valuation method	5-years smoothed market
Inflation	3.0 - 4.0%
Salary increases	2.0%, average, including inflation
Investment rate of return	8.00%
Retirement age	60
Mortality	Mortality rates were based on the RP 2014 Group Annuity Mortality Table of 50% Male and 50% Female blend.

Schedule of Changes in the City Fire and Police Net Pension Liability and Related Ratios
For the Year Ended June 30, 2018

	Actuarial Date as of June 30			
	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 596,556	\$ 633,576	\$ 615,793	\$ 753,853
Interest on the total pension liability	2,076,324	2,043,544	1,989,205	1,924,835
Difference between expected and actual experience	(16,481)	(174,409)	(152,778)	(654,167)
Changes in actuarial assumptions	2,662,396	(180,354)	-	(2,306,331)
Benefit payments	(1,963,287)	(1,719,106)	(1,702,915)	(1,663,432)
Refunds	-	(51,169)	-	(3,261)
Net change in total pension liability	3,355,508	552,082	749,305	(1,948,503)
Total pension liability - beginning	28,367,680	27,815,598	27,066,293	29,014,796
Total pension liability - ending	<u>\$ 31,723,188</u>	<u>\$28,367,680</u>	<u>\$27,815,598</u>	<u>\$27,066,293</u>
Plan fiduciary net position				
Contributions - employer	\$ 1,449,806	\$ 1,369,975	\$ 1,317,356	\$ 1,341,995
Contributions - employee	172,054	180,770	172,834	167,982
Net investment income	1,293,305	(463,292)	(315,466)	2,152,202
Benefit payments	(1,963,287)	(1,719,106)	(1,702,915)	(1,663,432)
Refunds	-	(51,169)	-	(3,261)
Other	(9,500)	-	-	-
Administrative expense	(29,408)	(35,685)	(26,181)	(27,767)
Net change in plan fiduciary net position	912,970	(718,507)	(554,372)	1,967,719
Plan fiduciary net position - beginning	14,343,657	15,062,164	15,616,536	13,648,817
Plan fiduciary net position - ending	<u>\$ 15,256,627</u>	<u>\$14,343,657</u>	<u>\$15,062,164</u>	<u>\$15,616,536</u>
City's net pension liability - ending	<u>\$ 16,466,561</u>	<u>\$14,024,023</u>	<u>\$12,753,434</u>	<u>\$11,449,757</u>
Plan fiduciary net position as a percentage of the total pension liability	48%	51%	54%	58%
Covered - employee payroll	\$ 2,704,445	\$ 2,593,983	\$ 2,651,151	\$ 2,626,924
City's net pension liability as a percentage of covered-employee payroll	609%	541%	481%	436%

**Schedule of City Fire and Police Contributions Multiyear
Last Ten Fiscal Years**

	Actuarial Date as of June 30									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 1,449,806	\$ 1,369,975	\$ 1,317,356	\$ 1,341,995	\$ 1,152,727	\$ 1,198,491	\$ 1,069,760	\$ 921,352	\$ 876,985	\$ 825,371
Contributions in relation to the actuarially determined contribution	<u>1,449,806</u>	<u>1,369,975</u>	<u>1,317,356</u>	<u>1,341,995</u>	<u>1,152,727</u>	<u>1,198,491</u>	<u>1,069,760</u>	<u>921,352</u>	<u>876,985</u>	<u>825,371</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 2,704,445	\$ 2,593,983	\$ 2,651,151	\$ 2,626,924	\$ 2,697,649	\$ 2,510,905	\$ 2,628,713	\$ 2,679,405	\$ 2,575,799	\$ 2,504,440
Contributions as a percentage of covered employee payroll	54%	53%	50%	51%	43%	48%	41%	34%	34%	33%

Notes to Schedule of Contributions:

Valuation Date:

June 30, 2017

Notes Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	18 years
Asset valuation method	5-year smoothed market; 20% corridor
Inflation	3.50% wage inflation; 2.75 price inflation
Salary increases	3.50% to 7.30% including inflation
Investment rate of return	7.50%
Retirement age	Experience-based table of rates that are specified to the type of eligibility condition. Last updated for the 2008 valuation.
Mortality	PR-2000 Mortality Table (Combined Healthy) projected to 2017 using projection Scale AA, set back 0 years for men and 0 years for women. At date of adoption, mortality rates were adjusted to include margin for 5 years of future life improvement. This table was first used for the June 30, 2012.

Other Information:

There were not benefit changes during the year. Beginning with the June 30, 2016 valuation, assumed wage inflation was lowered to 3.50%.

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 7,169,000	\$ 7,169,000	\$ 7,090,205	\$ (78,795)
Licenses and Permits	50,500	50,500	30,255	(20,245)
Federal Sources	96,400	113,400	117,903	4,503
State Sources	1,868,300	1,924,700	1,963,295	38,595
Charges for Services	2,236,700	2,360,190	2,430,785	70,595
Rentals	62,000	62,000	59,849	(2,151)
Interest Earnings	39,700	39,700	76,803	37,103
Other Revenue	41,500	54,400	74,135	19,735
TOTAL REVENUES	11,564,100	11,773,890	11,843,230	69,340
EXPENDITURES:				
Legislative:				
City Commission	50,300	51,100	50,671	429
General Government:				
City Manager	233,800	234,200	234,157	43
Finance	507,600	499,100	499,035	65
City Assessor	200,000	186,000	174,376	11,624
City Attorney	76,600	124,200	121,208	2,992
City Clerk	274,200	276,500	257,756	18,744
Cemetery	114,400	114,400	113,191	1,209
Federal Building	101,500	96,800	89,855	6,945
Non-Departmental	605,500	571,300	571,276	24
Total General Government	2,113,600	2,102,500	2,060,854	41,646
Public Safety:				
Police	2,817,300	2,866,700	2,768,594	98,106
Trident	122,300	123,900	112,393	11,507
Stonegarden	10,600	11,000	10,924	76
Auxiliary Police	30,300	30,300	22,893	7,407
Fire	1,557,500	1,576,600	1,566,891	9,709
Planning and Development	301,700	351,200	327,812	23,388
Total Public Safety	4,839,700	4,959,700	4,809,507	150,193

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works:				
Engineering	380,000	384,200	299,478	84,722
Sidewalks and Alleys	113,100	118,100	110,235	7,865
Composting	198,400	193,400	155,099	38,301
City Cleanup	25,000	25,000	20,063	4,937
Tree Maintenance	53,900	53,900	43,671	10,229
Airport	77,100	80,600	80,542	58
DPW General Services	234,800	234,800	199,514	35,286
Industrial Park	4,800	4,800	3,690	1,110
Total Public Works	<u>1,087,100</u>	<u>1,094,800</u>	<u>912,292</u>	<u>182,508</u>
Health and Welfare:				
Ambulance	<u>1,238,800</u>	<u>1,282,800</u>	<u>1,265,739</u>	<u>17,061</u>
Recreation and Culture:				
Marina	196,900	197,300	177,189	20,111
Osborn	10,600	10,200	8,521	1,679
Parks	560,100	562,100	546,455	15,645
Pullar	459,300	459,300	425,984	33,316
Carbide Dock	7,700	14,100	12,532	1,568
Beautification	14,400	14,400	8,378	6,022
Historic Homes	32,600	28,400	26,684	1,716
Recreation	90,100	90,100	87,358	2,742
Total Recreation and Culture	<u>1,371,700</u>	<u>1,375,900</u>	<u>1,293,101</u>	<u>82,799</u>
Capital Outlay	<u>222,300</u>	<u>473,300</u>	<u>383,489</u>	<u>89,811</u>
Other Expenditures:				
Insurance and Bonds	33,300	46,600	45,987	613
General Appropriations	230,800	230,800	228,172	2,628
Other	10,800	10,800	11,188	(388)
Total Other Expenditures	<u>274,900</u>	<u>288,200</u>	<u>285,347</u>	<u>2,853</u>
TOTAL EXPENDITURES	<u>11,198,400</u>	<u>11,628,300</u>	<u>11,061,000</u>	<u>567,300</u>
EXCESS OF REVENUES OVER EXPENDITURES	365,700	145,590	782,230	636,640
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	326,100	262,610	262,428	(182)
Operating Transfers Out	<u>(686,800)</u>	<u>(666,700)</u>	<u>(696,100)</u>	<u>(29,400)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 5,000</u>	<u>\$ (258,500)</u>	348,558	<u>\$ 607,058</u>
FUND BALANCE, JULY 1			<u>2,893,938</u>	
FUND BALANCE, JUNE 30			<u>\$ 3,242,496</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Major Streets Fund
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Special Assessments	\$ 1,800	\$ 1,800	\$ 1,239	\$ (561)
State Sources	1,306,600	1,328,600	1,468,360	139,760
Interest Earnings	500	500	485	(15)
TOTAL REVENUES	1,308,900	1,330,900	1,470,084	139,184
EXPENDITURES:				
Public Works	1,201,000	1,263,000	1,175,178	87,822
TOTAL EXPENDITURES	1,201,000	1,263,000	1,175,178	87,822
 EXCESS OF REVENUES OVER EXPENDITURES	 107,900	 67,900	 294,906	 227,006
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	35,000	75,000	35,000	(40,000)
Operating Transfers Out	(191,700)	(191,700)	(191,700)	-
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	 \$ (48,800)	 \$ (48,800)	 138,206	 \$ 187,006
 FUND BALANCE, JULY 1			 164,003	
 FUND BALANCE, JUNE 30			 \$ 302,209	

**Required Supplementary Information
Budgetary Comparison Schedule
Local Streets Fund
For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
Special Assessments	\$ 12,100	\$ 12,100	\$ 9,815	\$ (2,285)
State Sources	528,100	639,800	651,771	11,971
Interest Earnings	5,400	5,400	2,260	(3,140)
TOTAL REVENUES	545,600	657,300	663,846	6,546
EXPENDITURES:				
Public Works	747,600	859,300	808,840	50,460
TOTAL EXPENDITURES	747,600	859,300	808,840	50,460
EXCESS OF REVENUES OVER EXPENDITURES	(202,000)	(202,000)	(144,994)	57,006
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	241,000	241,000	221,000	(20,000)
Operating Transfers Out	(68,400)	(68,400)	(68,400)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (29,400)</u>	<u>\$ (29,400)</u>	7,606	<u>\$ 37,006</u>
FUND BALANCE, JULY 1			<u>122,034</u>	
FUND BALANCE, JUNE 30			<u>\$ 129,640</u>	

Other Supplementary Information

City of Sault Ste. Marie, Michigan

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue Funds			Debt Service Fund	Capital Project Funds			
	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Other Special Revenue	Debt Service	Road Contingency	Public Works Building	CSO Phase C-3
ASSETS:								
Cash and Equivalents - Unrestricted	\$ 329,652	\$ 53,779	\$ 229,805	\$ 71,682	\$ 539,384	\$ 1,581,442	\$ 1,434,873	\$ 336,759
Cash and Equivalents - Restricted	-	-	-	-	-	-	-	-
Investments - Restricted	-	-	-	4,042	-	-	-	-
Accounts Receivable	-	-	-	3,878	-	-	-	-
Due from Governmental Units	-	-	-	-	-	149,020	-	-
Due from Other Funds	-	-	-	-	-	-	-	-
Special Assessments Receivable	-	-	-	-	-	49,854	-	560,435
TOTAL ASSETS	<u>\$ 329,652</u>	<u>\$ 53,779</u>	<u>\$ 229,805</u>	<u>\$ 79,602</u>	<u>\$ 539,384</u>	<u>\$ 1,780,316</u>	<u>\$ 1,434,873</u>	<u>\$ 897,194</u>
LIABILITIES:								
Accounts Payable	\$ -	\$ -	\$ -	\$ 13,452	\$ -	\$ 106,474	\$ -	\$ -
Due to Other Funds	112,497	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>112,497</u>	<u>-</u>	<u>-</u>	<u>13,452</u>	<u>-</u>	<u>106,474</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES:								
Unavailable Revenues	-	-	-	-	-	49,854	-	560,435
FUND BALANCES:								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	217,155	53,779	229,805	-	539,384	1,623,988	1,434,873	336,759
Assigned	-	-	-	66,150	-	-	-	-
TOTAL FUND BALANCES	<u>217,155</u>	<u>53,779</u>	<u>229,805</u>	<u>66,150</u>	<u>539,384</u>	<u>1,623,988</u>	<u>1,434,873</u>	<u>336,759</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 329,652</u>	<u>\$ 53,779</u>	<u>\$ 229,805</u>	<u>\$ 79,602</u>	<u>\$ 539,384</u>	<u>\$ 1,780,316</u>	<u>\$ 1,434,873</u>	<u>\$ 897,194</u>

	Permanent Trust Funds			Total
	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 36,059	\$ 5,467	\$ 310,754	\$ 4,929,656
Cash and Equivalents - Restricted	222,914	635,583	-	858,497
Investments - Restricted	1,030,785	-	111,081	1,145,908
Accounts Receivable	-	-	90	3,968
Due from Governmental Units	-	-	-	149,020
Due from Other Funds	253,179	330,841	-	584,020
Special Assessments Receivable	-	-	-	610,289
TOTAL ASSETS	<u>\$ 1,542,937</u>	<u>\$ 971,891</u>	<u>\$ 421,925</u>	<u>\$ 8,281,358</u>
LIABILITIES:				
Accounts Payable	\$ -	\$ -	\$ 100	\$ 120,026
Due to Other Funds	-	-	-	112,497
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>100</u>	<u>232,523</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable Revenues	-	-	-	610,289
FUND BALANCES:				
Nonspendable	1,542,937	971,891	421,825	2,936,653
Restricted	-	-	-	4,435,743
Assigned	-	-	-	66,150
TOTAL FUND BALANCES	<u>1,542,937</u>	<u>971,891</u>	<u>421,825</u>	<u>7,438,546</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,542,937</u>	<u>\$ 971,891</u>	<u>\$ 421,925</u>	<u>\$ 8,281,358</u>

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2018**

	Special Revenue Funds			Debt Service Fund	Capital Project Funds		
	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Debt Service	Road Contingency	Public Works Building	CSO Phase C-3
REVENUES:							
Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ 23,511	\$ -	\$ 238,540
Taxes	-	-	-	-	265,832	-	-
State Sources	-	-	-	-	568,108	-	327,424
Local Sources	-	-	340,000	120,300	-	-	-
Charges for Services	-	-	-	-	-	-	-
Interest Earnings	3,760	584	-	29	109	16,351	1,143
Other Revenue	-	-	-	24,767	-	157,410	-
TOTAL REVENUES	3,760	584	340,000	120,329	1,014,970	16,351	567,107
EXPENDITURES:							
Recreation and Culture	8,589	11,200	40,000	-	-	-	-
Capital Outlay	-	-	-	-	939,134	35,938	13,698
Debt Service	-	-	-	522,594	-	-	-
Other Expenditures	-	-	-	24,928	-	-	-
TOTAL EXPENDITURES	8,589	11,200	40,000	522,594	939,134	35,938	13,698
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,829)	(10,616)	300,000	(161)	(402,265)	75,836	553,409
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	64,937	19,670	25,000	-	403,100	534,800	76,379
Operating Transfers Out	(37,500)	-	(379,800)	(17,000)	-	(515,727)	(523,491)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	22,608	9,054	(54,800)	(17,161)	835	94,909	106,297
FUND BALANCES, JULY 1	194,547	44,725	284,605	83,311	538,549	1,529,079	1,454,460
FUND BALANCES, JUNE 30	\$ 217,155	\$ 53,779	\$ 229,805	\$ 66,150	\$ 539,384	\$ 1,623,988	\$ 1,434,873

Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Permanent Trust Funds			Totals
	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	
REVENUES:				
Special Assessments	\$ -	\$ -	\$ -	\$ 262,051
Taxes	-	-	-	265,832
State Sources	-	-	-	895,532
Local Sources	-	-	-	460,300
Charges for Services	-	-	4,830	4,830
Interest Earnings	72,669	18,991	6,672	120,308
Other Revenue	-	-	1,895	184,072
TOTAL REVENUES	72,669	18,991	13,397	2,192,925
EXPENDITURES:				
Recreation and Culture	75,347	1,429	-	136,565
Capital Outlay	-	-	-	988,770
Debt Service	-	-	-	522,594
Other Expenditures	-	-	-	24,928
TOTAL EXPENDITURES	75,347	1,429	-	1,672,857
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,678)	17,562	13,397	520,068
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	1,123,886
Operating Transfers Out	(64,937)	(15,470)	(37,328)	(1,591,253)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(67,615)	2,092	(23,931)	52,701
FUND BALANCES, JULY 1	1,610,552	969,799	445,756	7,385,845
FUND BALANCES, JUNE 30	\$ 1,542,937	\$ 971,891	\$ 421,825	\$ 7,438,546

**Combining Statement of Net Position
Internal Service Funds
June 30, 2018**

	Information Systems	Stock and Equipment	Employee Health Insurance	Totals
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 225,824	\$ 449,810	\$ 177,756	\$ 853,390
Cash and Equivalents - Restricted	-	255,153	14,402	269,555
Accounts Receivable	-	164	98,398	98,562
Inventories	-	160,437	-	160,437
Other Assets	-	-	1,994	1,994
Capital Assets (Net of Accumulated Depreciation)	145,085	560,358	-	705,443
TOTAL ASSETS	\$ 370,909	\$ 1,425,922	\$ 292,550	\$ 2,089,381
LIABILITIES:				
Accounts Payable	\$ 3,367	\$ 22,894	\$ 187,952	\$ 214,213
Accrued Liabilities	3,039	31,490	8,512	43,041
Compensated Absences	-	26,883	-	26,883
TOTAL LIABILITIES	6,406	81,267	196,464	284,137
NET POSITION:				
Net Investment in Capital Assets	145,085	560,358	-	705,443
Restricted	-	704,963	-	704,963
Unrestricted	219,418	79,334	96,086	394,838
TOTAL NET POSITION	364,503	1,344,655	96,086	1,805,244
TOTAL LIABILITIES AND NET POSITION	\$ 370,909	\$ 1,425,922	\$ 292,550	\$ 2,089,381

**Combining Statement of Revenues, Expenses and
Changes in Net Position - Internal Service Funds
For the Year Ended June 30, 2018**

	Information Systems	Stock and Equipment	Employee Health Insurance	Totals
OPERATING REVENUES:				
Charges for Services	\$ 355,440	\$ 1,547,068	\$ 838,033	\$ 2,740,541
Other Revenue	-	120,300	-	120,300
TOTAL OPERATING REVENUES	355,440	1,667,368	838,033	2,860,841
OPERATING EXPENSES:				
Personnel	116,364	460,405	864,211	1,440,980
Supplies	34,859	204,210	-	239,069
Contracted Services	11,942	119,519	-	131,461
Utilities	111,454	51,453	-	162,907
Repair and Maintenance	131,003	360,005	-	491,008
Insurance	-	29,100	-	29,100
Depreciation	45,462	149,795	-	195,257
Other Expenses	10,081	3,407	-	13,488
Total Operating Expenses	461,165	1,377,894	864,211	2,703,270
OPERATING INCOME (LOSS)	(105,725)	289,474	(26,178)	157,571
NON-OPERATING REVENUES (EXPENSES):				
Interest on Deposits	-	7,203	2,732	9,935
Total Nonoperating Revenues	-	7,203	2,732	9,935
Income (Loss) Before Transfers	(105,725)	296,677	(23,446)	167,506
Transfers				
Operating Transfers In	1,800	560,800	-	562,600
Operating Transfers Out	-	(508,000)	(176,800)	(684,800)
Total Transfers	1,800	52,800	(176,800)	(122,200)
CHANGE IN NET POSITION	(103,925)	349,477	(200,246)	45,306
NET POSITION, JULY 1	468,428	995,178	296,332	1,759,938
NET POSITION, JUNE 30	\$ 364,503	\$ 1,344,655	\$ 96,086	\$ 1,805,244

**Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2018**

	Information Systems	Stock and Equipment	Employee Health Insurance	Total
Cash Flows From Operating Activities:				
Cash Received from Customers or Users	\$ 355,440	\$ 1,667,204	\$ 837,852	\$ 2,860,496
Cash Payments to Vendors	(298,822)	(857,841)	66,189	(1,090,474)
Cash Paid to Employees	(117,380)	(457,360)	(864,211)	(1,438,951)
Net Cash Provided (Used) By Operating Activities	<u>(60,762)</u>	<u>352,003</u>	<u>39,830</u>	<u>331,071</u>
Cash Flows From Non-Capital and Related Financing Activities:				
Operating Transfers In	1,800	560,800	-	562,600
Operating Transfers (Out)	-	(508,000)	(176,800)	(684,800)
Net Cash Provided (Used) for Non-Capital and Related Financing Activities	<u>1,800</u>	<u>52,800</u>	<u>(176,800)</u>	<u>(122,200)</u>
Cash Flows From Capital and Related Financing Activities:				
(Purchase)/Sale of Property and Equipment	3,477	(209,119)	-	(205,642)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>3,477</u>	<u>(209,119)</u>	<u>-</u>	<u>(205,642)</u>
Cash Flows From Investing Activities:				
Interest Income	-	7,203	2,732	9,935
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>7,203</u>	<u>2,732</u>	<u>9,935</u>
Net Increase (Decrease) in Cash	(55,485)	202,887	(134,238)	13,164
Cash and Equivalents at Beginning of Year	281,309	502,076	326,396	1,109,781
Cash and Equivalents at End of Year	<u>\$ 225,824</u>	<u>\$ 704,963</u>	<u>\$ 192,158</u>	<u>\$ 1,122,945</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (105,725)	\$ 289,474	\$ (26,178)	\$ 157,571
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	45,462	149,795	-	195,257
Changes in Assets and Liabilities:				
Decrease (Increase) in Assets:				
Accounts Receivable	-	(164)	(661)	(825)
Inventory	-	(81,161)	-	(81,161)
Other Assets	5,525	-	480	6,005
Increase (Decrease) in Liabilities:				
Accounts Payable	(5,008)	(8,986)	57,677	43,683
Accrued Liabilities	408	439	8,512	9,359
Compensated Absences	(1,424)	2,606	-	1,182
Net Cash Provided (Used) By Operating Activities	<u>\$ (60,762)</u>	<u>\$ 352,003</u>	<u>\$ 39,830</u>	<u>\$ 331,071</u>

**Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2018**

	Parking	Sewer Plant Equipment Replacement	Water Equipment Replacement	Totals
ASSETS:				
Cash and Equivalents - Unrestricted	\$ 10,557	\$ -	\$ -	\$ 10,557
Cash and Equivalents - Restricted	-	294,097	259,890	553,987
Capital Assets Not Depreciated	199,278	-	-	199,278
Capital Assets (Net of Accumulated Depreciation)	28,576	-	-	28,576
TOTAL ASSETS	\$ 238,411	\$ 294,097	\$ 259,890	\$ 792,398
LIABILITIES:				
Accounts Payable	\$ 2,994	\$ -	\$ -	\$ 2,994
Accrued Liabilities	2,213	-	-	2,213
Compensated Absences	5,292	-	-	5,292
TOTAL LIABILITIES	10,499	-	-	10,499
NET ASSETS:				
Net Investment in Capital Assets	227,854	-	-	227,854
Restricted	-	294,097	259,890	553,987
Unrestricted	58	-	-	58
TOTAL NET POSITION	227,912	294,097	259,890	781,899
TOTAL LIABILITIES AND NET POSITION	\$ 238,411	\$ 294,097	\$ 259,890	\$ 792,398

City of Sault Ste. Marie, Michigan

**Combining Statement of Revenues, Expenses and
Changes in Net Position - Nonmajor Enterprise Funds
For the Year Ended June 30, 2018**

	<u>Parking</u>	<u>Sewer Plant Equipment Replacement</u>	<u>Water Equipment Replacement</u>	<u>Totals</u>
OPERATING REVENUES:				
Charges for Services	\$ 138,656	\$ -	\$ -	\$ 138,656
TOTAL OPERATING REVENUES	<u>138,656</u>	<u>-</u>	<u>-</u>	<u>138,656</u>
OPERATING EXPENSES:				
Personnel	79,386	-	-	79,386
Supplies	3,719	-	-	3,719
Repairs and Maintenance	78,738	-	-	78,738
Contracted Services	34,669	-	-	34,669
Insurance	5,100	-	-	5,100
Parking Lot Expenses	8,562	-	-	8,562
Utilities	567	-	-	567
Depreciation	6,010	-	-	6,010
Total Operating Expenses	<u>216,751</u>	<u>-</u>	<u>-</u>	<u>216,751</u>
OPERATING INCOME (LOSS)	(78,095)	-	-	(78,095)
NON-OPERATING REVENUES (EXPENSES):				
Interest Income	259	4,391	3,523	8,173
Total Non-Operating Revenues (Expenses)	<u>259</u>	<u>4,391</u>	<u>3,523</u>	<u>8,173</u>
Income (Loss) Before Transfers	(77,836)	4,391	3,523	(69,922)
Transfers				
Operating Transfers In	61,100	40,000	20,000	121,100
Operating Transfers Out	-	(300,800)	(103,400)	(404,200)
Total Transfers	<u>61,100</u>	<u>(260,800)</u>	<u>(83,400)</u>	<u>(283,100)</u>
CHANGE IN NET POSITION	(16,736)	(256,409)	(79,877)	(353,022)
NET POSITION, JULY 1	<u>244,648</u>	<u>550,506</u>	<u>339,767</u>	<u>1,134,921</u>
NET POSITION, JUNE 30	<u>\$ 227,912</u>	<u>\$ 294,097</u>	<u>\$ 259,890</u>	<u>\$ 781,899</u>

**Nonmajor Enterprise Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2018**

	Parking	Sewer Plant Equipment Replacement	Water Equipment Replacement	Totals
Cash Flows From Operating Activities:				
Cash Received from Customers or Users	\$ 138,656	\$ -	\$ -	\$ 138,656
Cash Payments to Vendors	(131,372)	-	-	(131,372)
Cash Paid to Employees	(76,731)	-	-	(76,731)
Net Cash Provided (Used) by Operating Activities	(69,447)	-	-	(69,447)
Cash Flows From Non-Capital Financing Activities:				
Operating Transfers In	61,100	40,000	20,000	121,100
Operating Transfers (Out)	-	(300,800)	(103,400)	(404,200)
Net Cash Provided (Used) by Non-Capital Financing Activities	61,100	(260,800)	(83,400)	(283,100)
Cash Flows From Capital & Related Financing Activities:				
Purchase of Capital Assets	(22,075)	-	-	(22,075)
Net Cash Provided (Used) by Non-Capital Financing Activities	(22,075)	-	-	(22,075)
Cash Flows from Investing Activities:				
Interest Income	259	4,391	3,523	8,173
Net Cash Provided (Used) by Investing Activities	259	4,391	3,523	8,173
Net Increase (Decrease) in Cash	(30,163)	(256,409)	(79,877)	(366,449)
Cash and Equivalents, Beginning of Year	40,720	550,506	339,767	930,993
Cash and Equivalents, End of Year	\$ 10,557	\$ 294,097	\$ 259,890	\$ 564,544
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (78,095)	\$ -	\$ -	\$ (78,095)
Add Non-Cash Expenses:				
Depreciation	6,010	-	-	6,010
Increase (Decrease) in Liabilities:				
Accounts Payable	(17)	-	-	(17)
Accrued Liabilities	529	-	-	529
Compensated Absences	2,126	-	-	2,126
Net Cash Provided (Used) by Operating Activities	\$ (69,447)	\$ -	\$ -	\$ (69,447)

Augusta H. Seal Trust

BOARD OF TRUSTEES

Anthony Bosbous, Chairman

Albertha Dagnall

Vacant

Douglas Welton

Dave Thomas

City of Sault Ste. Marie, Michigan
(Augusta H. Seal Trust)

Statement of Assets, Liabilities, and Trust Principal
Modified Cash Basis
December 31, 2017

ASSETS:

Cash and Equivalents	\$ 223,298
Investments	853,102
Due from Other City Funds	<u>253,179</u>
Total Assets, Equal to Trust Principal	<u><u>\$ 1,329,579</u></u>

City of Sault Ste. Marie, Michigan
(Augusta H. Seal Trust)

**Statement of Cash Receipts, Cash Disbursements, and
Changes in Trust Principal - Modified Cash Basis
For the Year Ended December 31 2017**

	<u>Principal</u>	<u>Income</u>
Distributable Income		
Interest Income	\$ -	\$ 73,152
Less: Contracted Services	<u>-</u>	<u>(1,000)</u>
Net Distributable Income	<u>-</u>	<u>\$ 72,152</u>
Distributions		
Mandatory Distributions:		
To Principal of Trust - 10%	7,215	\$ (7,215)
To City of Sault Ste. Marie, Michigan - 75%	<u>-</u>	<u>(54,114)</u>
Total Mandatory Distributions	<u>7,215</u>	<u>(61,329)</u>
Optional Distributions:		
To City of Sault Ste. Marie, Michigan - 15%		<u>(10,823)</u>
Total Distributions of Trust Income		<u>\$ (72,152)</u>
Trust Principal, Beginning of Year	<u>1,322,364</u>	
Trust Principal, End of the Year	<u>\$ 1,329,579</u>	

Governor Chase S. Osborn Trust

BOARD OF TRUSTEES

Anthony Bosbous, Chairman

Albertha Dagnall

Vacant

Douglas Welton

Dave Thomas

City of Sault Ste. Marie, Michigan
(Governor Chase S. Osborn Trust)

Statement of Assets, Liabilities, and Trust Principal
Modified Cash Basis
December 31, 2017

ASSETS:

Cash and Equivalents	\$ 46,880
Investments	586,241
Due from Other City Funds	<u>330,841</u>
Total Assets, Equal to Trust Principal	<u><u>\$ 963,962</u></u>

City of Sault Ste. Marie, Michigan
(Governor Chase S. Osborn Trust)

**Statement of Cash Receipts, Cash Disbursements, and
Changes in Trust Principal - Modified Cash Basis
For the Year Ended December 31, 2017**

	<u>Principal</u>	<u>Income</u>
Distributable Income		
Interest Income	\$ -	\$ 19,199
Less: Contracted Services	<u>-</u>	<u>(1,000)</u>
Net Distributable Income	<u>-</u>	<u>\$ 18,199</u>
Distributions		
Mandatory Distributions:		
To Principal of Trust - 15%	2,730	\$ (2,730)
To City of Sault Ste. Marie, Michigan - 85%	<u>-</u>	<u>(15,469)</u>
Total Distributions of Trust Income	2,730	<u>\$ (18,199)</u>
Trust Principal, Beginning of Year	<u>961,232</u>	
Trust Principal, End of the Year	<u>\$ 963,962</u>	

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**INDEPENDENT AUDITOR'S 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, 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, 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, 2018, and the related notes to the financial statements, which collectively comprise the City of Sault Ste. Marie, Michigan's basic financial statements and have issued our report thereon, dated December 6, 2018.

Internal Control Over Financial Reporting

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

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

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

Honorable Mayor and Members
of the City Commission

Compliance and Other Matters

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

Purpose of this Report

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



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

December 6, 2018

Additional Information

CITY OF SAULT STE. MARIE, MICHIGAN

ADDITIONAL INFORMATION

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER MACPA

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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, 2018, 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
Kincheloe, Michigan

December 6, 2018

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

With several exceptions, 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, 2018, the City has the following debt issues of \$1,000,000 or more, some of which may apply to SEC Rule 15c2-12.

1. 1998 \$3,820,000 State Revolving Fund CSO Loan.
2. 1998 \$4,155,000 State Drinking Water Revolving Fund Loan.
3. 2001 \$1,790,607 State Drinking Water Revolving Fund Loan.
4. 2002 \$3,385,000 State Revolving Fund CSO Loan.
5. 2003 \$3,135,000 State Drinking Water Revolving Fund Loan.
6. 2015 \$4,700,000 Refunding of Downtown Development Authority Parking Deck Bonds.
7. 2013 \$7,040,000 Chippewa County Water Supply & Sewage Disposal System Refunding Limited Tax General Obligation Bonds (Refunding Chippewa County Issue of 2010) (City of Sault Ste. Marie).
8. 2010 \$7,955,000 State Revolving Fund CSO Loan, reduced by ARRA principal forgiveness to \$5,189,000.
9. 2016 \$3,700,000 Capital Improvement Limited Tax General Obligation Refunding Bonds
10. 2011 \$4,790,000 Chippewa County Water Supply and Sewage Disposal System Refunding Bonds (City of Sault Ste. Marie).
11. 2012 \$2,730,000 LTGO Revenue Refunding Bonds (Refunding Chippewa County Issues of 1995, 1998 and 2001).
12. 2014 \$7,325,000 State Revolving Fund CSO Loan.
13. 2014 \$5,120,000 State Drinking Water Revolving Fund CSO Loan.
14. 2015 \$2,285,000 Capital Improvement Limited Tax General Obligation 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
2017 U.S. Census Population Estimate.....	13,631		

Source: U.S. Department of Commerce - Bureau of Census as of July 1, 2017

**City of Sault Ste. Marie
Taxable Value
Fiscal years ending June 30, 2015 Through June 30, 2019**

<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 Special Act 198 (1)</u>	<u>Total Taxable Value (3)</u>	<u>Percent Change</u>
2013	2014	2015	281,158,245	624,550	281,782,795	-4.18%
2014	2015	2016	277,247,150	547,750	277,794,900	-1.42%
2015	2016	2017	273,995,835	500,700	274,496,535	-1.19%
2016	2017	2018	277,145,756	490,250	277,636,006	1.14%
2017	2018	2019	285,419,554	382,650	285,802,204	2.94%

Per Capita Total Taxable Value for the Fiscal Year Ended June 30, 2019 (2)..... \$20,939.00

- (1) Values are given at the full tax rate, and special Acts currently include 198 (IFT).
- (2) Based on the City's estimated 2017 population of 13,631.
- (3) Total taxable value and Ad Valorem taxable value includes 2 properties owned by the DNR in the amount of \$13,595.

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

**City of Sault Ste. Marie
Total Taxable Value By Use and Class
Fiscal years ending June 30, 2015 Through June 30, 2019**

<u>Use</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Commercial	96,685,996	94,049,077	91,176,619	93,751,363	100,189,361
Industrial	19,865,908	19,940,988	18,249,280	17,913,881	17,061,553
Residential/Ag	157,302,791	157,242,635	157,868,436	158,337,562	160,841,890
Utility	7,928,100	6,562,200	7,202,200	7,633,200	7,709,400
	<u>281,782,795</u>	<u>277,794,900</u>	<u>274,496,535</u>	<u>277,636,006</u>	<u>285,802,204</u>
<u>Class</u>					
Real Property	259,238,895	257,707,600	254,035,585	256,895,706	260,464,404
Personal Property	22,543,900	20,087,300	20,460,950	20,740,300	25,337,800
	<u>281,782,795</u>	<u>277,794,900</u>	<u>274,496,535</u>	<u>277,636,006</u>	<u>285,802,204</u>

(1) Taxable Value by Use includes real and personal property, which can be Commercial, Industrial and Utility uses. Special Acts are added in at half of the taxable value, or the Equivalent Taxable Value.

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Percent of Total Taxable Value By Use and Class
Fiscal years ending June 30, 2015 Through June 30, 2019**

<u>Use</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Commercial	34.31%	33.86%	33.22%	33.77%	35.06%
Industrial	7.05%	7.18%	6.65%	6.45%	5.97%
Residential/Ag	55.82%	56.60%	57.51%	57.03%	56.28%
Utility	<u>2.81%</u>	<u>2.36%</u>	<u>2.62%</u>	<u>2.75%</u>	<u>2.70%</u>
	100.00%	100.00%	100.00%	100.00%	100.00%
<u>Class</u>					
Real Property	92.00%	92.77%	92.55%	92.53%	91.13%
Personal Property	<u>8.00%</u>	<u>7.23%</u>	<u>7.45%</u>	<u>7.47%</u>	<u>8.87%</u>
	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 ending June 30, 2015 Through June 30, 2019**

<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 SEV</u>	<u>SEV of Property Granted Tax Abatement Under Special Act 198 (1)</u>	<u>Total Value (3)</u>	<u>Percent Change</u>
2013	2014	2015	312,850,600	1,249,100	314,099,700	-4.18%
2014	2015	2016	315,038,300	1,095,500	316,133,800	0.65%
2015	2016	2017	313,436,900	1,001,400	314,438,300	-0.54%
2016	2017	2018	313,797,000	980,500	314,777,500	0.11%
2017	2018	2019	320,616,300	765,300	321,381,600	2.10%

Per Capita Total SEV for the Fiscal Year Ending June 30, 2019 (2) \$23,531.11

- (1) Special Acts currently include 198 (IFT). All Act 255 abatements have expired.
- (2) Based on the City's estimated 2017 Census population of 13,631.
- (3) Total SEV value and Ad Valorem SEV value includes 2 properties owned by the DNR with SEV of \$107,300.

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Total SEV By Use and Class
Fiscal years ending June 30, 2015 Through June 30, 2019**

<u>Use</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Commercial	115,158,400	112,120,400	106,159,400	106,166,400	112,918,600
Industrial	20,845,400	21,826,400	21,094,800	21,477,400	21,384,600
Residential/Ag	170,167,800	175,624,800	179,981,900	179,500,500	179,369,000
Utility	<u>7,928,100</u>	<u>6,562,200</u>	<u>7,202,200</u>	<u>7,633,200</u>	<u>7,709,400</u>
	314,099,700	316,133,800	314,438,300	314,777,500	321,381,600
<u>Class</u>					
Real Property	291,346,900	295,913,900	293,830,000	293,930,100	296,043,800
Personal Property	<u>22,752,800</u>	<u>20,219,900</u>	<u>20,608,300</u>	<u>20,847,400</u>	<u>25,337,800</u>
	314,099,700	316,133,800	314,438,300	314,777,500	321,381,600

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

**City of Sault Ste. Marie
Percent of SEV By Use and Class
Fiscal years ending June 30, 2015 Through June 30, 2019**

<u>Use</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Commercial	36.66%	35.47%	33.76%	33.73%	35.14%
Industrial	6.64%	6.90%	6.71%	6.82%	6.65%
Residential/Ag	54.18%	55.55%	57.24%	57.02%	55.81%
Utility	<u>2.52%</u>	<u>2.08%</u>	<u>2.29%</u>	<u>2.42%</u>	<u>2.40%</u>
	100.00%	100.00%	100.00%	100.00%	100.00%
<u>Class</u>					
Real Property	92.76%	93.60%	93.45%	93.38%	92.12%
Personal Property	<u>7.24%</u>	<u>6.40%</u>	<u>6.55%</u>	<u>6.62%</u>	<u>7.88%</u>
	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, 2019**

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Millage Reduction Fraction (1)</u>	<u>Maximum Allowable Millage</u>
Operating	20.0000	0.8407	16.8139
Refuse Collection and Disposal	3.0000	0.8407	2.5221

(1) Cumulative, maximum allowable millage as a fraction of authorized millage.

Source: City of Sault Ste. Marie

Tax Abatement

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. 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 (the "Act"). The Act was 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").

NOTE 2 - TABLES: (Continued)

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.

An industrial or commercial facilities exemption certificate granted under Act 198 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 there exists separate tax roll, which is referred to as the industrial facilities tax roll (the “IFT Tax Roll”). The IFT 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 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 IFT 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 IFT abatements granted after 1994, this millage rate equals ½ of all tax rates levied by other than the State plus none, ½ or the entire state tax rate (as determined by the State Treasurer).

The SEV of properties which have been granted tax abatement under Act 198, removed from the Ad Valorem Tax Roll, totaled \$765,300 for the fiscal year ending June 30, 2019. The tax paid on these properties is equivalent to Ad Valorem Taxes paid on \$382,650 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 ending June 30, 2015 Through June 30, 2019					
<u>Levy July 1</u>	<u>Fiscal Year Ended or Ending June</u>	<u>Operating</u>	<u>Police and Fire Pension</u>	<u>Refuse Collection and Disposal</u>	<u>Total</u>
2014	2015	16.8139	4.9152	0.5632	22.2923
2015	2016	16.8139	5.2115	0.5632	22.5886
2016	2017	16.8139	5.3323	0.5632	22.7094
2017	2018	16.8139	5.4502	0.5632	22.8273
2018	2019	16.8139	6.0766	0.5632	23.4537

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 ending June 30, 2015 Through June 30, 2019**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
City of Sault Ste. Marie	22.2923	22.5886	22.7094	22.8273	23.4537
Chippewa County	9.2648	9.2648	9.2648	9.2648	8.6648
State Education Levy	6.0000	6.0000	6.0000	6.0000	6.0000
Sault Area Public Schools	2.1500	2.5000	2.4800	2.4800	2.4800
Intermediate School District	1.2000	1.2000	1.2000	2.2000	2.2000
Superior District Library	<u>0.5000</u>	<u>0.5000</u>	<u>0.5000</u>	<u>0.5000</u>	<u>0.5000</u>
	41.4071	42.0534	42.1542	43.2721	43.2985

Source: City of Sault Ste. Marie

**City of Sault Ste. Marie
Non-Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal years ending June 30, 2015 Through June 30, 2019**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
City of Sault Ste. Marie	22.2923	22.5886	22.7094	22.8273	23.4537
Chippewa County	9.2648	9.2648	9.2648	9.2648	8.6648
State Education Levy	6.0000	6.0000	6.0000	6.0000	6.0000
Sault Area Public Schools	20.1500	20.5000	20.4800	20.4800	20.4800
Intermediate School District	1.2000	1.2000	1.2000	2.2000	2.2000
Superior District Library	<u>0.5000</u>	<u>0.5000</u>	<u>0.5000</u>	<u>0.5000</u>	<u>0.5000</u>
	59.4071	60.0534	60.1542	61.2721	61.2985

Source: City of Sault Ste. Marie

- (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.

NOTE 2 - TABLES: (Continued)

**City of Sault Ste. Marie
Property Tax Collections
Fiscal years ending June 30, 2015 Through June 30, 2019**

<u>Levy July 1</u>	<u>Fiscal Year Ended or June 30</u>	<u>Tax Levy (1)</u>	<u>Collections to March 1 Following Levy</u>	<u>Percent Collected</u>
2014	2015	5,915,476	5,450,850	92.15%
2015	2016	6,007,011	5,563,247	92.61%
2016	2017	6,010,040	5,645,580	93.94%
2017	2018	6,137,859	5,766,409	93.95%
2018	2019	6,398,400	(2)	

(1) Tax Levy includes all millages levied by the City and taxes on properties granted abatement under Act 198, and excludes captures on those millages. See “Tax Abatement” and “Property Tax Rates” herein.

(2) In process of collection.

Source: City of Sault Ste. Marie

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.

**City of Sault Ste. Marie
Ten Largest Taxpayers
Fiscal year ending June 30, 2019**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2018 Taxable Value</u>	<u>Percent of Total (1)</u>
Cloverland	Electric Company	14,138,813	4.95%
Good Will Company Inc.	Retail - shopping	5,898,685	2.07%
Wal-Mart Real Estate Business	Retail - shopping	5,442,000	1.91%
Meijers Stores	Retail - shopping	4,715,900	1.65%
Cascade X LLC	Retail - shopping	4,000,000	1.40%
Pointe West 1 LP	Apartment Complex	3,648,200	1.28%
Hoover Precision Products LLC	Manufacturer	2,762,677	0.97%
DTE Gas Company	utility - gas	1,711,742	0.60%
McGahey Randall G & Judith C	Real Estate	1,572,913	0.55%
American Transmission Company	utility - telephone	<u>1,455,211</u>	<u>0.51%</u>
		\$ 45,346,141	15.89%

NOTE 2 - TABLES: (Continued)

(1) Based on the City's Total Taxable Value of \$285,802,204. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Tax Abatement" and "Property Tax Rates" 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 November 2, 2018.

Debt Limit (1)		\$32,138,160
Debt Outstanding	\$35,656,127	
Less: Exempt Debt	<u>19,510,790</u>	
		<u>16,145,337</u>
Legal Debt Margin		\$15,992,823

10% of \$321,381,600, which is the City's Total State Equalized Valuation for the fiscal year ending June 30, 2018, and includes the SEV of property granted tax abatement under Act 198.

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, 2018. 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 tax rate limitations.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self- Supporting</u>	<u>Net</u>
Share of County Issued Bonds:			
Dated July 12, 2011 (4) (LT)	\$ 1,015,000	\$ 1,015,000	\$ -
Dated December 23, 2013 (LT)	<u>5,360,000</u>	<u>5,360,000</u>	<u>-</u>
Subtotal	\$ 6,375,000	\$ 6,375,000	\$ -
Michigan Transportation Fund Bonds:			
Dated September 1, 2008 (LT) (4)	<u>\$ 345,000</u>	<u>\$ 345,000</u>	<u>\$ -</u>
Subtotal	\$ 345,000	\$ 345,000	\$ -
Tax Increment Bonds:			
Dated April 17, 2012 (LT)	\$ 675,000	\$ 675,000	\$ -
Dated April 29, 2015 (LT)	<u>3,455,000</u>	<u>3,455,000</u>	<u>-</u>
Subtotal	\$ 4,130,000	\$ 4,130,000	\$ -
Capital Improvement Bonds:			
Dated April 25, 2012 (LT) (4)	\$ 1,510,000	\$ 1,510,000	\$ -
Dated January 26, 2016 (LT)	3,075,000	-	3,075,000
Dated November 2, 2005 (LT)	355,000	355,000	-
Dated April 29, 2015 (LT)	<u>2,010,000</u>	<u>2,010,000</u>	<u>-</u>
Subtotal	\$ 6,950,000	\$ 3,875,000	\$3,075,000

(Continued)

NOTE 2 - TABLES: (Continued)

Debt Statement: (Continued)

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self- Supporting</u>	<u>Net</u>
Water and Sewer Bonds:			
Dated September 17, 2014 (4)	\$ 6,092,535	\$ 6,092,535	\$ -
Dated September 17, 2014 (4)	4,157,415	4,157,415	-
Dated January 22, 2010 (LT) (4) (5)	3,330,283	3,330,283	-
Dated March 27, 2003 (4)	1,105,000	1,105,000	-
Dated September 26, 2002 (LT) (4)	1,190,000	1,190,000	-
Dated September 28, 2001 (4)	525,607	525,607	-
Dated September 29, 1998 (4)	465,000	465,000	-
Dated September 29, 1998 (4)	<u>515,000</u>	<u>515,000</u>	<u>-</u>
Subtotal	\$ 17,380,840	\$17,380,840	\$ -
Installment Purchase Obligations			
Dated August 3, 2006 (LT)	\$ 178,804	\$ 178,804	\$ -
Dated November 28, 2017 (LT)	<u>296,483</u>	<u>296,483</u>	<u>-</u>
Subtotal	\$ 475,287	\$ 475,287	\$ -
Total City Direct Debt	<u>\$ 35,656,127</u>	<u>\$32,581,127</u>	<u>\$3,075,000</u>
Per Capita Net City Direct Debt (1)			\$ 225.59
Percent of Net Direct Debt to Total SEV (2)			0.96%
<u>Overlapping Debt (3)</u>	<u>Gross</u>	<u>City Share as Percent of Gross</u>	<u>Net</u>
Sault Ste. Marie Public Schools	\$ 9,505,000	52.36%	\$4,976,818
Eastern Upper Peninsula I/S/D	-	0.00%	-
Chippewa County	-	0.00%	-
Total Overlapping Debt	<u>\$ 9,505,000</u>		<u>\$4,976,818</u>
Per Capita Net Overlapping Debt (1)			\$ 365.11
Percent of Net Overlapping Debt to Total SEV (2)			1.55%
Per Capita Net Direct and Overlapping Debt (1)			\$ 590.70
Percentage of Net Direct and Overlapping Debt to Total SEV (2)			2.51%

NOTE 2 - TABLES: (Continued)

Debt Statement: (Continued)

- (1) Based on the City’s 2017 U.S. Census population of 13,631.
- (2) Based on \$321,381,600, which is the City’s Total State Equalized Valuation for the fiscal year ending June 30, 2019, and 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) Michigan Finance Authority combined issues 5129-09 A and B and is now billing and has amortized them as a single issue under Water and Sewer Bonds.

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 ending June 30, 2014 Through June 30, 2018**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Constitutional Revenue Sharing	\$ 1,056,962	\$ 1,073,562	\$1,072,531	\$ 1,127,370	\$ 1,173,190
Statutory Revenue Sharing	407,499	419,942	419,942	419,942	429,477
Income Tax	-	-	-	-	-
Liquor Licenses	20,250	20,422	20,670	21,413	19,831
Total Revenues	\$ 1,484,711	\$ 1,513,926	\$1,513,143	\$ 1,568,725	\$ 1,622,498

Source: City of Sault Ste. Marie

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

<u>Valuation Date</u> <u>December 31</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Funded</u> <u>Ratio</u>
2013	\$ 27,101,844	\$ 21,365,130	78.83%
2014	\$ 27,825,812	\$ 21,474,510	77.17%
2015	\$ 30,024,612	\$ 21,361,049	71.15%
2016	\$ 30,547,088	\$ 21,386,892	70.01%
2017	\$ 31,010,238	\$ 21,473,401	69.25%

Source: Municipal Employees’ Retirement System, Annual Actuarial Valuation Report December 31, 2017

NOTE 2 - TABLES: (Continued)

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

<u>Valuation Date</u> <u>June 30</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Funded</u> <u>Ratio</u>
2013	\$ 26,730,112	\$ 13,263,763	49.62%
2014	\$ 27,066,293	\$ 14,542,674	53.73%
2015	\$ 27,815,598	\$ 15,488,869	55.68%
2016	\$ 28,367,680	\$ 15,907,412	56.08%
2017	\$ 31,723,188	\$ 16,476,892	51.94%

Source: City of Sault Ste. Marie Firemen and Policemen Retirement System Annual Actuarial Valuation Report June 30, 2018.

Labor Contracts

Approximately 81% 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 full-time permanent members in each and expiration date of the present contract. Employees of component units, such as the EDC and the DDA, are excluded from this table.

	<u>Membership</u>	<u>Current</u> <u>Expiration</u> <u>Date</u>
United Steelworkers of America - Public Works	43	June 30, 2020
United Steelworkers of America - Clerical	8	June 30, 2020
United Steelworkers of America - Firefighters	15	June 30, 2020
United Steelworkers of America - Fire Captains	3	June 30, 2018 (1)
Michigan Fraternal Order of Police Labor Commission -Patrol Unit	17	June 30, 2021
Michigan Fraternal Order of Police Labor Commission -Police Records	4	June 30, 2021
Michigan Fraternal Order of Police Labor Commission -Police Command	5	June 30, 2019
Non-Union Employees	<u>22</u>	N/A
Total Permanent City Employees	<u><u>117</u></u>	

(1) In process of negotiation as of November 21, 2018.

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.

Employer	Principal Product of Service	Employee Count (approximate)
Sault Tribe of Chippewa Indians	Casino, Hotel & Convention Center, Tribal Administration	1,627
War Memorial Hospital	Healthcare	906
Lake Superior State Univ.	Higher Education	500
Wal-Mart	Retail	400
Sault Area Public Schools	Primary/Secondary Education	292
U.S. Coast Guard	Military	262
Precision Edge	Surgical Instruments	200
CLM Community Action Agency	Human Services	192
City of Sault Ste Marie	Governmental Service	160
Hiawatha Behavioral Health	Mental Health	107

Source: Northern Michigan University Chippewa County Economic Profile, 2015 data published September 2016 (later update not available at this time)

Employment

Reflected below are the unemployment statistics for the Sault Ste. Marie Micropolitan Statistical Area and the State of Michigan for the calendar years 2013 through August of 2018.

Sault Ste. Marie Micropolitan Area:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018 (1)</u>
Employed	15,391	15,501	15,731	15,739	15,383	15,517
Unemployed	1,633	1,406	1,008	997	1,111	808
Labor Force	<u>17,024</u>	<u>16,907</u>	<u>16,739</u>	<u>16,736</u>	<u>16,494</u>	<u>16,325</u>
Unemployed as Percent of the Labor Force	9.6%	8.3%	6.0%	6.0%	6.7%	4.9%

(1) As of August 2018.

(2) Totals and percentages may differ due to rounding by the US Bureau of Labor Standards.

Source: US Bureau of Labor Standards

NOTE 2 - TABLES: (Continued)

State of Michigan:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018(1)</u>
Employed	4,343,069	4,428,710	4,516,221	4,623,568	4,643,065	4,696,685
Unemployed	425,516	348,694	247,250	240,708	189,919	201,383
Labor Force	<u>4,768,595</u>	<u>4,777,404</u>	<u>4,763,471</u>	<u>4,864,276</u>	<u>4,832,984</u>	<u>4,898,068</u>
Unemployed as Percent of the Labor Force	8.9%	7.3%	5.2%	4.9%	3.9%	4.1%

(1) As of August 2018.

(2) Totals and percentages may differ due to rounding by the US Bureau of Labor Standards.

Source: US Bureau of Labor Standards



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA
LESLIE BOHN, CPA

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, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sault Ste. Marie, Michigan for the year ended June 30, 2018, and have issued our report thereon dated December 6, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated August 8, 2018, 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.

As part of our audit, we considered the internal control of the City of Sault Ste. Marie, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Sault Ste. Marie, Michigan's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis, schedule of funding progress and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on combining fund financial statements, which accompany the financial statements but are not RSI. Our responsibility for this other information, as described by professional standards, is to evaluate the presentation of the other information in relation to the financial statements as a whole and to report on whether the other information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have not been engaged to report on the Securities Exchange Commission (SEC) section, which accompany the financial statements but are not RSI. Our responsibility with respect to this other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information will not be audited and we will not express an opinion or provide any assurance on it.

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 August 8, 2018.

Significant Audit Findings

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. All significant transactions have been recognized in the financial statements in the proper period.

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 time.
- Management's estimate of the Annual Required Contribution for OPEB Obligations and pension benefits were based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates.
- 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 \$143,881.

The financial statement disclosures are neutral, consistent and clear.

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 clearly 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, a disagreement with management is 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 6, 2018.

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 to determine that 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.

Uniform Administrative Requirements (Prior Year)

As a precondition to receive federal funds, prospective recipients must have effective administrative and financial internal controls. The Uniform Guidance requires *written* policies and procedures regarding:

- Cash Management – Section 200.302(b)(6) payment procedures
- Allowability of Costs – Section 200.302(b)(7) in accordance with Subpart E – Cost Principals
- Conflict of Interest – Section 200.318(c) covering standards of conduct
- Procurement – Section 200.319(c) for purchasing
- Method of Conducting Technical Evaluations – Section 200.320(d)(3) regarding proposals
- Travel Reimbursement – Section 200.474(b) regarding travel expenses

Written policies should include provisions for training and consequences for violations of policies. The City should review its current written policies for compliance with the above requirements regarding federal awards and amend as necessary.

Status: In process.

Upcoming Standards

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City. For the complete text of these and other GASB standards, visit www.gasb.org. If you have questions regarding the applicability, timing, or implementation, please contact us.

GASB 83 – Certain Asset Retirement Obligations

Effective 06/15/19 (your FY 2019)

This statement addresses accounting and financial reporting for certain asset retirement obligations—legally enforceable liabilities associated with the retirement of a tangible capital assets.

GASB 84 – Fiduciary Activities

Effective 12/15/2019 (your FY 2019)

This standard establishes new criteria for determine how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, management should assess the degree to which this standard may impact the City.

GASB 86 – Certain Debt Extinguishment Issues

Effective 06/15/2018 (your FY 2018)

This standard provides guidance for reporting the in-substance defeasance of outstanding debt obligations using existing resources. Qualifying transactions will remove both the assets placed into trust and the related debt obligation from the government’s statement of net position.

GASB 87 – Single Approach for Reporting Leases

The Governmental Accounting Standards Board (GASB) issued guidance that establishes a single approach to accounting for and reporting leases by state and local governments. The single approach is based on the principle that leases are financing of the right to use an underlying asset.

GASB Statement No. 87, *Leases*, provides guidance for lease contracts for nonfinancial assets – including vehicles heavy equipment, and buildings – but excludes nonexchange transactions, including donates assets, and leases of intangible assets.

Under the new Statement, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements.

A lease also will report the following in its financial statements:

- Amortization expense for using the lease asset (similar to depreciation) over the shorter of the term of the lease or the useful life of the underlying asset.
- Interest expense on the lease liability.
- Note disclosures about the lease, including a general description of the leasing arrangement, the amount of the lease assets recognized, and a schedule of future lease payment to be made.

Limited exceptions to the single-approach guidance are provided for:

- Short-term leases, defined as lasting a maximum of 12 months at inception, including any options to extend.
- Financial purchases.
- Certain regulated leases, such as between municipal airports and air carriers.

The full text of Statement 87 is available on the GASB website, www.gasb.org.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of employee's retirement and benefit system and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining fund financial statements, which accompany the financial statements but are not RSI. With respect to this other information, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the Securities Exchange Commission (SEC) section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Conclusion

This information is intended solely for the use of the Mayor, City Council and management of the City of Sault Ste. Marie, 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.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

December 6, 2018