City of Sault Ste. Marie

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2015

City of Sault Ste. Marie

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR	ANTHONY BOSBOUS
MAYOR PRO TEM	WILLIAM LYNN
COMMISSIONER	RAY BAUER
COMMISSIONER	KATHLEEN TWARDY
COMMISSIONER	DON GERRIE
COMMISSIONER	JAY GAGE
COMMISSIONER	BRENT OSTERHOUT

APPOINTED OFFICERS

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

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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, 2015 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

FINANCIAL HIGHLIGHTS

Government-Wide

The assets of the City exceeded its liabilities at the close of this fiscal year by $70.12 million (shown as Net Position), representing an increase of $1,065,802 over the previous fiscal year. Governmental Activities increased by $2,066,338, while the Net Position of the Business-Type activities decreased by $1,000,536.

Of the total net position, $(11,335,807) is unrestricted due to the City's net pension obligation. As stated in Note B to the financial statements, the City implemented the provisions of GASB 68, Accounting and Financial Reporting for Pensions, recording a net pension liability of $19,985,407 at June 30, 2014. The liability decreased to $18,306,821 at June 30, 2015.

Fund Level Financial Highlights

As of June 30, 2015, the governmental funds of the City of Sault Ste. Marie reported combined ending fund balances of $14,387,522. This is an increase of $1,402,408. The largest factor in that increase was the result of completing several capital projects and closing the funds during the year ended June 30, 2015.

As a part of the annual budget process, certain funds are committed by the City Commission in the General Fund. This includes Fire Equipment Replacement funds of $460,097, Carbide Dock reserve of $548,504, the Fort Street Bridge Reassembly reserve of $250,000, general capital commitments of $10,000, unspent Trident donation funds of $532,213, and $3,449,968 in various capital projects budgeted but not spent in the fiscal year. The financial statements also reflect a new requirement that the liability for all accrued leave time be reflected as a commitment for governmental funds. An amount of $532,213 for compensated absences has been listed as committed in the General Fund balance to meet this requirement.

In the General Fund, total Fund Balance increased to $2,600,887, which is up $202,319 from a year earlier. The unassigned portion of the General Fund balance is $724,355.

Long-Term Debt

The City of Sault Ste. Marie's total debt increased from $39,463,734 at the end of last fiscal year to $39,941,204 at June 30, 2015, an increase of $477,470. The City made draw requests which increase the balance owed on the SRF CSO C bond issue.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The *statement of net 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 whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal 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 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, 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.

The government-wide financial statements can be found on pages 7-8 of this report.

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

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

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

The City maintains 16 individual governmental funds, which includes four major funds and 12 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 General Fund, Major Streets Fund, Local Streets Fund, and Capital Projects Fund each of which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic *governmental fund* financial statements can be found on pages 9-10 of this report.

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

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

The basic proprietary fund financial statements can be found on 12-14 of this report.

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

The basic fiduciary fund financial statements can be found on page 16-17 of this report.

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

The notes to the financial statements can be found on pages 21-66 of this report.

***Required supplementary information*.** Required supplementary information related to the City's pension plans can be found on pages 68-71 and budgetary comparison information related to the City's major governmental funds can be found on pages 72-75 of this report.

Other supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information including the combining statements referred to earlier in connection with non-major governmental funds which are presented immediately following the notes to the financial statements. Combining fund statements can be found on pages 77-80 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $70,124,456 at the close of fiscal year 2015.

Approximately 97% 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 related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's 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 19% of total net position. The remaining balance of unrestricted net position $(11,081,519) or (16)% represents the portion of unfunded future pension liabilities in excess of current net assets.

City of Sault Ste. Marie
Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current Assets	$ 24,114,944	$ 22,183,206	$ 7,261,186	$ 7,251,215	$ 31,376,130	$ 29,434,421
Capital Assets	53,793,049	53,764,199	55,219,870	53,651,328	109,012,919	107,415,527
Deferred Outflows of Resources	1,704,778	-	248,862	181,985	1,953,640	181,985
Total Assets and Deferred Outflows of Resources	$ 79,612,771	$ 75,947,405	$ 62,729,918	$ 61,084,528	$ 142,342,689	$ 137,031,933
Current Liabilities	$ 3,005,233	$ 2,310,737	$ 3,201,258	$ 3,116,841	$ 6,206,491	$ 5,427,578
Noncurrent Liabilities	23,001,646	6,722,064	33,318,030	29,796,070	56,319,676	36,518,134
Deferred Inflows of Resources	9,519,845	6,042,160	172,221	-	9,692,066	6,042,160
Total Liabilities and Deferred Inflows of Resources	35,526,724	15,074,961	36,691,509	32,912,911	72,218,233	47,987,872
Net Position						
Net Investment in Capital Assets	47,683,664	46,668,448	20,315,683	21,283,345	67,999,347	67,951,793
Restricted	4,710,088	7,426,086	5,469,238	5,345,206	10,179,326	12,771,292
Funds held as Nonexpendable Permanent Investments	3,027,302	-	-	-	3,027,302	-
Unrestricted	(11,335,007)	6,777,910	253,488	1,543,066	(11,081,519)	8,320,976
Total Net Position	$ 44,086,047	$ 60,872,444	$ 26,038,409	$ 28,171,617	$ 70,124,456	$ 89,044,061

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

The City's net position increased $1,065,802 during the current fiscal year.

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

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program Revenues						
Charges for Services	$ 2,809,221	$ 2,460,765	$ 7,051,138	$ 7,563,338	$ 9,860,359	$ 10,024,103
Operating Grants and Contributions	2,085,392	2,150,133	176,014	126,147	2,261,406	2,276,280
Capital Grants and Contributions	2,427,931	2,726,634	-	-	2,427,931	2,726,634
General Revenues						
Property Taxes	7,037,680	7,493,952	-	-	7,037,680	7,493,952
State Revenue Sharing	1,493,504	1,464,460	-	-	1,493,504	1,464,460
Investment Earnings	189,288	166,424	18,402	20,994	207,690	187,418
Loss on disposal of fixed assets	(253,280)	-	-	-	(253,280)	-
Total Revenues	15,789,736	16,462,368	7,245,554	7,710,479	23,035,290	24,172,847
Program Expenses						
Legislative	56,364	47,329	-	-	56,364	47,329
General Government	1,862,426	3,896,786	-	-	1,862,426	3,896,786
Public Safety	4,029,437	4,471,857	-	-	4,029,437	4,471,857
Public Works	5,269,694	3,912,653	-	-	5,269,694	3,912,653
Health and Welfare	1,496,747	1,132,064	-	-	1,496,747	1,132,064
Recreation and Culture	2,421,866	1,695,806	-	-	2,421,866	1,695,806
Other Expenses	413,906	651,447	-	-	413,906	651,447
Interest Expense	299,411	351,867	-	-	299,411	351,867
Water and Sewer	-	-	5,715,123	6,273,035	5,715,123	6,273,035
Parking Deck	-	-	678,335	455,178	678,335	455,178
Parking	-	-	230,371	290,778	230,371	290,778
Total Expenses	15,849,851	16,159,809	6,623,829	7,018,991	22,473,680	23,178,800
Changes in Net Assets before Transfers	(60,115)	302,559	621,725	691,488	561,610	994,047
Transfers	2,126,453	(148,185)	(1,622,261)	522,100	504,192	373,915
Changes in Net Position	2,066,338	154,374	(1,000,536)	1,213,588	1,065,802	1,367,962
Net Position - Beginning (as restated 2015)	42,019,709	60,718,070	27,038,945	26,958,029	69,058,654	87,676,099
Net Position - Ending	$ 44,086,047	$ 60,872,444	$ 26,038,409	$ 28,171,617	$ 70,124,456	$ 89,044,061

Governmental activities increased the City's net position by $2,066,338. Business-type activities decreased the City's net position by $1,00,536, accounting for the largest portion of the decrease in the City's net position for fiscal year 2015.

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

The June 30, 2014 Statement of Net Position and Statement of Changes in Net Position were not restated here for the implementation of GASB 68, Accounting and Financial Reporting for Pensions.

DETAILS OF FINANCIAL ACTIVITY

The City's financial activity can be defined as Governmental Activities and Business-type Activities. Governmental activities generally focus of services that are supported through taxes, state revenues and other similar sources. Business-type activities are those operations that are intended to be supported by specific fees to pay for that service, such as the Water and Sewer services. The following information will provide a review of financial activities that occurred in the financial reports for the year ended June 30, 2015.

Revenues

The City has been hurt by continual problems with three main General Fund revenue components: property tax revenues, State revenue sharing, and historically low interest rates which have reduced unrestricted interest earnings.

Taxable values for the tax year 2014 were $281,782,795, a 4.18% decrease from the prior year. Gains and losses in taxable value have an effect on General Fund tax revenue, but have a more significant effect on the tax increments because the revenue in these funds is generated solely on the growth. For the downtown tax increment districts, revenues have been lower than projections for several years. Taxable values for the tax year 2015 were $278,342,650, a 1.22% decrease from the prior year or just under $3.4 million lower. The effect of this decrease will not be felt in the General Fund until fiscal year ending June 30, 2016, and the budget for that year actually reflects a slight increase of $114,200 due in part to an increase in the millage rate for Police and Fire Pension, as well as a greater reduction in downtown captured values than City-wide values.

Year	Taxable Value	Percent Change
2015	$ 278,342,650	-1.22%
2014	$ 281,782,795	-4.18%
2013	$ 294,076,656	1.98%
2012	$ 288,367,330	-2.57%
2011	$ 295,965,221	1.02%

This is an average decrease of 0.99% per year over five years. Many areas in Michigan continue to struggle to maintain services due to dramatic taxable value decreases. Total City millage increased from 22.2923 in 2014 tax year, to 22.5886 in 2015 tax year. Operating millage at 16.8139, and Solid Waste millage at 0.5632 remained unchanged. Police/Fire Pension millage increased from 4.9152 to 5.2115 to cover increased required employer contributions into the retirement plan. With a funded status of just 54%, as of its last valuation, the Police and Fire Pension Board has made significant changes working toward a more solid funding status, but it will take time for the value of these improvements to be reflected in the financials. In an election of November, 2013, a millage of 0.5000 passed to fund the newly formed Superior District Library. This millage has replaced the City Library millage of 0.8000 in

the 2014, and effectively reduced the tax burden for citizens of the City. As a result, the year ending June 30, 2013 was the last fiscal year in which the Bayliss Public Library is a component unit of the City of Sault Ste. Marie.

For the fiscal year ending June 30, 2015 Revenue Sharing was budgeted at $1,513,800 based on State Revenue Sharing estimates at budget time. Actual receipts were $1,493,504, which is under budget by $20,296.

Reductions to State of Michigan Revenue Sharing

Fiscal Year	Constitutional	Statutory	Combined
2014-15	$ 1,073,562	$ 419,942	$ 1,493,504
2013-14	1,056,962	407,499	1,464,461
2012-13	1,032,741	388,770	1,421,511
2011-12	1,011,795	362,853	1,374,648
2010-11	950,582	492,077	1,442,659
2009-10	907,772	534,887	1,442,659
2008-09	936,461	685,598	1,622,059
2007-08	992,938	685,598	1,678,536
2006-07	960,858	717,678	1,678,536
2005-06	981,248	748,809	1,730,057
2004-05	964,821	784,702	1,749,523
2003-04	942,333	826,470	1,768,803
2002-03	952,679	1,015,385	1,968,064

Annual sales tax distributions from the State, also known as State revenue sharing, experienced steady decline from 2002 to 2012, during which it dropped 30%. Since 2012, however, the City has obtained incremental increases which have caused an 8% increase in revenue over the last three years. This is partially due to changes made to 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 a conservative approach to spending and transparency of financial information to the public. The City has responded accordingly to capture as much of this revenue as possible as well as to provide this information in a clear and concise format to a wider audience than in the past. The State's projections for next fiscal year ending June 30, 2016 show an overall revenue sharing increase of $33,700.

Interest income in the General Fund has increased in the past three years, but is still well below its peak in 2006-07, and similar reductions have occurred in other funds. Market conditions do not foresee a return to the kind of rates experienced in the past.

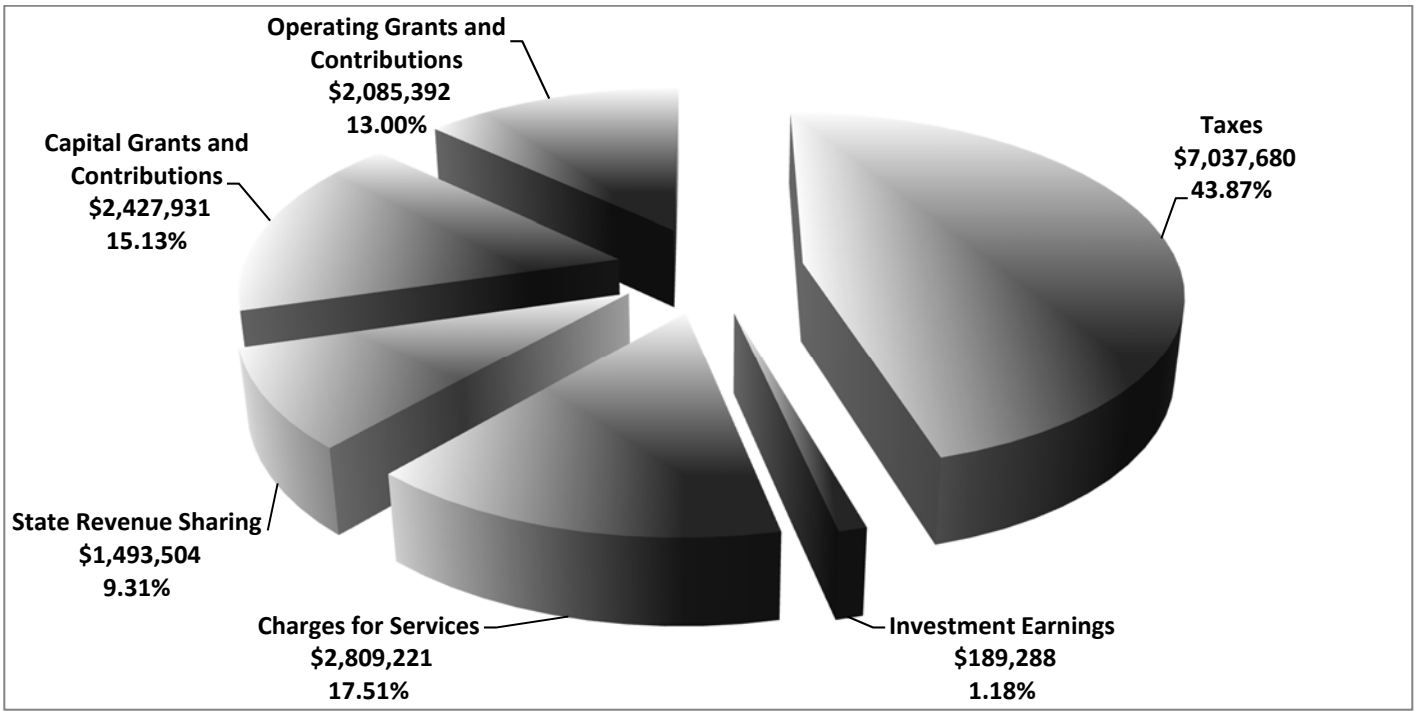
General Fund Interest

2014-15	$	53,514
2013-14		31,521
2012-13		27,450
2011-12		35,270
2010-11		25,999
2009-10		38,085
2008-09		143,087
2007-08		293,097

Because of increased debt service requirements and declining consumption, water and sewer rates have continued to rise. Consumption has steadily fallen in step with the nationwide trend toward water conservation, and continued reduction in per capita consumption may drop to even lower levels in years to come. Unfortunately, the resulting spread of rising costs over decreasing units and causes higher usage charges. The City continues to cover costs in the Water and Sewer fund with moderate and steady annual rate increases with a sincere effort to keep them as low as possible for its customers. The winter and spring of 2013-14 was a record year across the state for water line freezing problems, and the fund incurred significant additional expenses just to keep service running to many of its customers. The City received two grants to recover repair costs totaling $1,061,330, repairs were underway as of the end of the fiscal year, and the project was completed as of November 2015.

For the fiscal year ending June 30, 2015 revenues in the General Fund were less the final appropriated amounts by $20,730. Expenditures fell slightly below the amount expected by $399,123. In the street funds, revenues exceeded the amount appropriated by $92,667 in the Major Street Fund, and were slightly under the amount appropriated in the Local Street Fund by $19,465.

Revenues by Sources
Governmental Activities



Expenditures

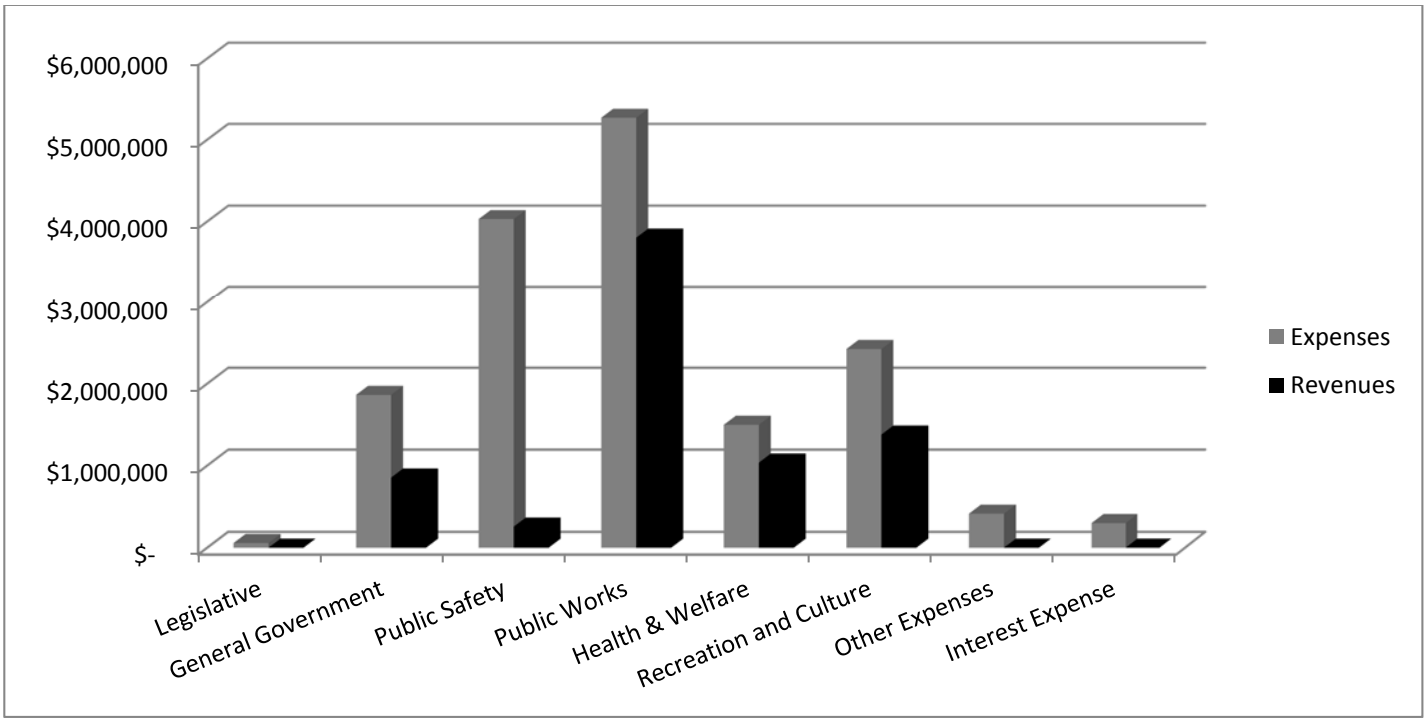
Effective during the fiscal year ending June 2013, the City implemented an administrative reorganization plan and a two-tiered compensation schedule for non-union employees which resulted in the reduction of full-time staffing within the City organization by 10 employees from the previous year. On June 30, 2015, the City's operations concluded the third full fiscal year with these lower staffing levels. This and other cost saving measures can be seen in an overall reduction of operational expenditures across applicable funds.

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.

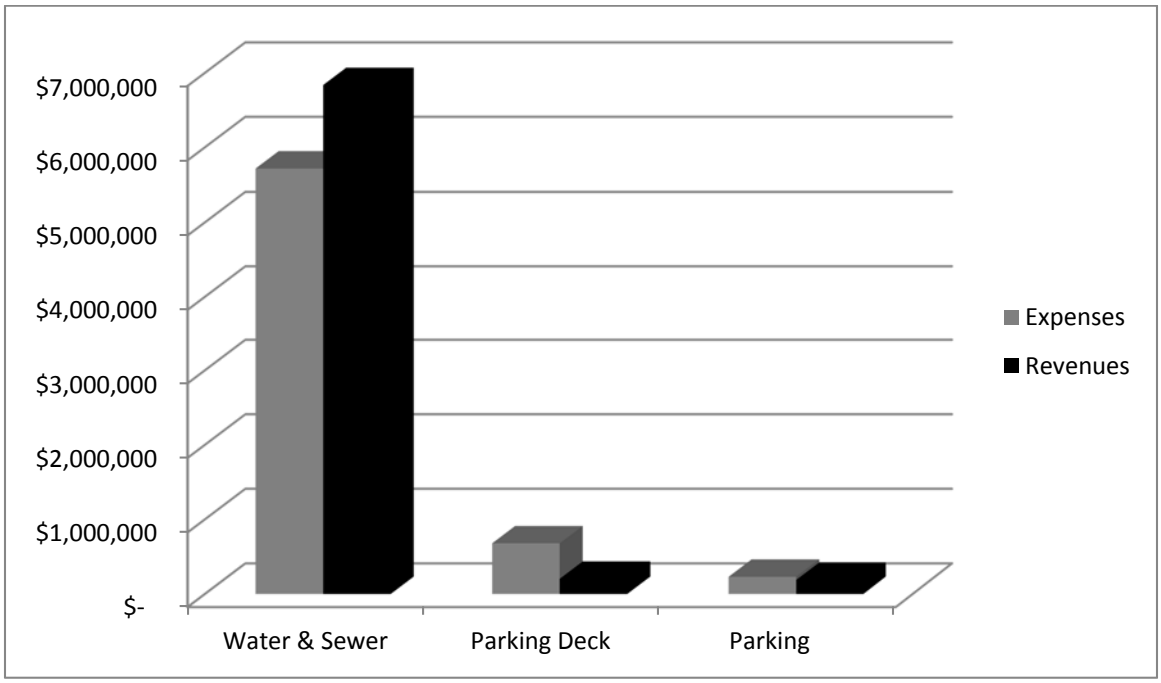
Fiscal year ending 2009-10 was the City's first full year under a self-insured healthcare plan for active employees with Blue Cross Blue Shield of Michigan. A Special Health Committee was formed and was charged with implementing heath care plans that keep the City's costs at threshold levels. The Committee has met this challenge through the difficult past few years with inflation in this area and the latest projections show overall healthcare costs will increase again due to Federal Affordable Care Act. Due to the self-insured nature of the plan, costs can vary greatly from year to year, however the Health Committee analyzes costs to keep average expenses level while adjusting covered services to make that happen. Despite efforts and significant contributions by employees toward the cost, employer costs in the year ending June 30, 2015 were $421,781, as compared to $899,339 in the previous year.

In the business-type activities, the expenses in the Water and Sewer Fund and Parking Deck Fund exceeded revenue, while in the Parking Fund (surface parking), expenses exceeded revenues generated.

Expenses and Program Revenues
Governmental Activities



Expenses and Program Revenues
Business-type Activities



Capital Outlay

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

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

	Governmental Activities	Business-type Activities	Total
Construction in progress	$ 2,831,416	$ 3,512,388	$ 6,343,804
Land	2,659,102	207,049	2,866,151
Intangibles – easements	56,556	-	56,556
Buildings and improvements	12,364,417	11,118,213	23,482,630
Land improvements	3,942,459	-	3,942,459
Furniture and equipment	2,098,322	1,072,310	3,170,632
Infrastructure	29,840,777	-	29,840,777
Water and sewer	-	39,309,910	39,309,910
Total	**$ 53,793,049**	**$ 55,219,870**	**$ 109,012,919**

Improvements to the City's infrastructure that were completed during the fiscal year include the following projects: the reconstruction of Library Drive and Hursley Street, improvements to Shawano and Bahweting Drives, resurfacing on Fort Street, pavement patching at various locations, and the design for potential storm sewer improvements on Eureka and Peck Streets. A total of $1,936,139 was spent on these street projects as of June 30, 2015. Many other street projects are underway but were incomplete at June 30, 2015 including milling and resurfacing work on Seymour Street and West Easterday Avenue, Ashmun Streetscape and Utility upgrades, a streets condition survey, bridge maintenance, sidewalk replacements and the Combined Sewer Overflow (CSO) Phase C-3 (road work portion). Approximately $950,855 worth of street related infrastructure improvements were under construction at June 30th.

Capital projects completed on buildings include the following work: Baraga House improvements, Kemp tank repairs, 8th Avenue bathroom roof repairs, Pullar brine pipe repairs, and renovations at the Firehall. Work done on land includes a project at the airport to improve drainage and an erosion control project at Sherman Park. The total spent on building and land improvements completed during the year was $453,376. Other projects underway as of the close of the fiscal year include: downtown signage, master plan and zoning ordinance updating work, improvements to the James/Laucks Ball Field, electrical work at the Aune-Osborn Campground, electrical work and building upgrades to Sault Seal ski/tubing hill, phase one of renovations at the Pullar Community Building, improvements to the historic elevator and the HVAC system at City Hall, a soil stability study and improvements at the I-500 track, inspection and roof repairs at Kaine's Rink, and a plan of the DPW Complex. The City has spent $1,880,560 on these projects currently in progress as of the close of the fiscal year.

In the Sewer and Water fund this fiscal year, the City completed $143,114 worth of improvements to water and sewer systems combined mainly with the Library/Hursley project. Improvements underway at June 30th include the sewer and water portion of infrastructure in the CSO Phase C-3, repairs to the filter at the Water Treatment Plant, and repairs to water mains damaged during the 2013-2014 winter, funded with an MEDC Urgent Needs grant. A total of $3,405,339 was spent to date on projects under construction in this fund at the fiscal year end.

The General Fund purchased new uniforms for officers of the Police Department at a cost of $15,101, a new Ford ambulance for $129,468, a 4-wheeler with tracks for use by the Parks and Recreation Department for $12,915, and a new water heater at Pullar for $13,800. A new commercial mower for use at the airport was also purchased with funding from the Airport Tax Increment Financing Authority at a cost of $12,998.

Information Systems Fund spent $26,819 on computers and related hardware, another $4,083 on software and GIS mapping was done for $25,650. The Stock & Equipment Fund purchased a plow truck wing blade for $16,013, an emulsion tank spray patcher at a cost of $45,161, a 2015 Ford Explorer for the Police Department at a cost of $31,286, and a 2015 Ford Explorer for the City Manager at a cost of $29,710.

The Sewer and Water fund purchased a Ford ¾ ton pick-up truck for $29,068, and equipment for use at the Waste Water Treatment Plant including sludge transport containers for $11,647, a primary clarifier cleaning system for $20,145, a digester heat exchanger at a cost of $32,000, and a 6-inch sewage pump with a trailer for $44,400.

At the Parking Deck, construction in progress includes $107,050 spent on maintenance, leaving a small balance yet to spend to complete the project during the next year.

Additional information on the City's capital assets can be found in Note F on pages 38-40 of this report.

Fund Balance

During the fiscal year ending June 30, 2015, the City's fund balance for governmental funds rose from $12,985,114 to $14,387,522 for an increase of $1,402,408. While the General Fund and the Major Street Fund saw an increase to fund balances, the Local Street Funds and Capital Projects Fund experienced a combined reduction of $1,072,699, and the larger change was seen in Other Non-Major Governmental Funds, which increased by $2,268,286. In the General Fund, the balance increased from $2,398,568 to $2,600,888. And the General Fund finished with a higher fund balance than the $2,366,369 that was projected when the current year budget was approved in May of 2015. The City has kept a watchful eye on the fund balance in the General Fund in an effort to keep it within accepted guidelines in accordance with its relatively new policy on the subject. Local Street fund saw a reduction to draw down its reserves in favor of increasing subsidies from other funds, however both street funds are promised additional State funding in the subsequent fiscal year.

Please note that GASB reporting requirements call for the City's long-term obligation for compensated absences in the amount of $532,213 be reflected as committed fund balance in the General Fund. This is the fourth year that the fund balance reflects this commitment. The fund balance in the Major Street Fund was increased by $4,502 during the fiscal year, while the Local Street Fund balance reduced by $308,134 through the fiscal year.

Debt Administration

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

The City added three bond issues during the fiscal year in connection with the Combined Sewer Overflow Phase C-3 project. The first two are State Revolving Fund loans which closed in September at a favorable 2.5% interest rate over the 20 year life of the bond. The sewer issue was in the maximum amount of $7,325,000 and the drinking water issue was for an amount not greater than $5,120,000, and draws are made in connection with construction progress for both. The City had drawn $2,808,771 of the combined $12,445,000 available balance as of June 30th. The final bond issued in April 2015 was to cover the street portion of the project in the amount of $2,285,000 and for which interest rates range from 2.0% to 3.25%. This project is the final phase of mandated work in the area of sewer separation and rates were set in consideration of the added debt service related to these issues.

During the year, the City also refunded its 2005 DDA bonds in connection with the parking structure in an amount of $4,700,000 and with a net present value of savings over the next twelve years of $515,408. These savings were the result of favorable interest rates, which now range from 2.0% to 3.0%, and were formerly ranging from 4.25% to 4.40%.

Several loans dropped off during the year related to the City's agreement with R&B Electronics through its component unit the Economic Development Corporation (EDC). The loans were part of a leasehold improvement to the City owned building, and included an option to purchase the facility, which R&B successfully completed. The sale of the facility initiated early payment of the loan with the Community Development Block Grant program under the Michigan Economic Development Corporation, as well as internal loans recorded between the City and its own EDC.

The City made regular and scheduled debt payments for a total amount of $3.2 million throughout the fiscal year. In consideration of all additions and deletions of long term debt, the net change during the fiscal year was an increase of $1.7 million to bring the grand total to $41,678,565. The City is currently in the process of establishing a written debt policy to further document parameters to consider with each new obligation.

It is appropriate to note the implementation of a new GASB reporting requirement which calls for the City's net pension obligations in the amount of $18,306,821 be reflected in the government wide statement of net position. While the reporting of this amount in the statements is new, this obligation has certainly been noted and understood by the City and its rating agencies.

Additional information on the City's long-term debt can be found in Note H on pages 42-49 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In reviewing economic information for the Sault Ste. Marie area, the overall unemployment rate has dropped from August, 2014 to August 2015 from 8.3% to 6.3%, showing an improvement. This reduction in unemployment is reflected in statewide numbers as well, where we saw a drop from 6.8% to 5.1% over the same span of time. Canadian trade is significant for Sault Ste. Marie's retail establishments with commuters comprising 52% of bridge traffic. Total International Bridge traffic surpassed 2 million crossings in 2012, ending 2012 with 2,070,449 crossings, and it was up to 2,104,458 in 2013. The 2014 year-end total was back down to 1,980,841, and more recent reports show that the number of crossings during October 2015 is down 24.8% from the prior October. Administration of the bridge has been working to decrease wait times and ease traffic flow with the addition of lanes to better accommodate security features. The Taxable Value as of December 31, 2014 in the amount of $278,342,650, is at the lowest level since 2006. This value dropped 1.22% from the prior year's valuation, and has dropped an average of 1% over the past five years. These reductions directly impact property taxes, a primary component of the City's revenue.

The City's elected and appointed officials considered many factors when setting the 2015-2016 fiscal year General Fund Budget. In accordance with the adopted Guiding Financial Principles, the City addresses anticipated economic changes proactively such as the reductions in state shared revenue and incremental changes in property tax values when considering the impacts these funding reductions have on local government services. The City made a pro-active step to maintain security of its finances with the adoption of a fund balance policy in December of 2013, and has increased its use of long-range forecasting models to better predict future needs.

Since the state budget implemented Revenue Sharing based on recommended budget guidelines laid out in the County, Village, and Township Revenue Sharing Program, the City has been in compliance with all requirements to maximize funding in this program. Based on estimates at this time, the City's Revenue Sharing funds will be increased 2.68% over last fiscal year to $1,547,500. The State has also increased distributions to local agencies in the next fiscal year ending June 30, 2016 through the Local Community Stabilization Share Appropriation and the Michigan Transportation Fund, which have eased tensions in the General Fund and Street Funds. Efforts to rein in current costs and future commitments and attention to future projections have helped stabilize the General Fund's fund balance and improved the outlook for the other funds as well. The City has been proactive in its annual valuation of water rates to ensure that trends toward lower consumption and increasing expenses don't result in a dramatic rate jump or financial difficulty for the Sewer and Water Fund. Administration remains vigilant with goals to contain costs in all areas of the City while maintaining and improving key services to the community.

REQUEST FOR INFORMATION

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

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
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Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund and the aggregate remaining fund information of the ***City of Sault Ste. Marie*** (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 City'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 City'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.

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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 as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Accounting Change

As described in Note B to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Financial Reporting for Pension Plans*, and Governmental Accounting Standards Board Statements No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, during the year ended June 30, 2015.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *x*v, and the required supplementary information on pages 68-75, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining 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 financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

November 30, 2015

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, CPA
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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Sault Ste. Marie***, as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 of the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 changed 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 and therefore, material weaknesses or significant deficiencies may exits that were not identified. Given these limitations, during our audit did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, that we consider to be a significant deficiency.

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Reporting Financial Data

Criteria: All Michigan cities are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the City has at times relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Cause: The condition was caused by the City's decision that it is more cost effective to work with the external auditors for assistance in the preparation of its annual financial statements than to incur the time and expense of obtaining the necessary training and tools required for the City to perform this task internally.

Effect: As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to work with its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Compliance and Other Matters

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

November 30, 2015

City of Sault Ste. Marie

STATEMENT OF NET POSITION

June 30, 2015

	Primary Government			
	Governmental	Business-type	Total	Component Units
ASSETS				
Cash and Equivalents - Unrestricted	$ 7,642,868	$ 1,220,014	$ 8,862,882	$ 1,115,395
Investments - Unrestricted	3,502,714	-	3,502,714	376,943
Accounts Receivable	494,448	379,195	873,643	26,470
Pledges Receivable	127,387	-	127,387	-
Internal Balances	33,789	(33,789)	-	-
Taxes Receivable	6,061,220	-	6,061,220	-
Special Assessments Receivable	395,954	35,095	431,049	11,367
Debt Guarantee Receivable	-	22,790	22,790	203,911
Due from Governmental Units	3,788,204	-	3,788,204	45,331
Inventories	104,744	168,643	273,387	-
Other Assets	76,881	-	76,881	-
Prepaids	162,296	-	162,296	-
Cash and Equivalents - Restricted	482,003	5,469,238	5,951,241	-
Investments - Restricted	1,242,436	-	1,242,436	-
Capital Assets Not Depreciated	5,490,518	3,719,437	9,209,955	20,000
Capital Assets (Net of Accumulated Depreciation)	48,302,531	51,500,433	99,802,964	-
Total Assets	77,907,993	62,481,056	140,389,049	1,799,417
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Loss on Debt Refunding	-	170,611	170,611	-
Deferred Outflows for Pension Obligation	1,704,778	78,251	1,783,029	4,704
Total Deferred Outflows of Resources	1,704,778	248,862	1,953,640	4,704
Total Assets and Deferred Outflows of Resources	$ 79,612,771	$ 62,729,918	$ 142,342,689	$ 1,804,121
LIABILITIES				
Accounts Payable	$ 1,809,273	$ 38,823	$ 1,848,096	$ 143,662
Accrued Liabilities	375,232	252,025	627,257	2,324
Unearned Revenue	-	18,632	18,632	11,367
Compensated Absences - Due Within One Year	57,679	18,901	76,580	-
Compensated Absences - Due In More Than One Year	500,737	134,472	635,209	25,802
Debt Guarantee Liabilities	-	-	-	226,701
Net Pension Obligation	17,154,573	1,152,248	18,306,821	69,264
Long-term Debt - Due Within One Year	763,049	2,872,877	3,635,926	-
Long-term Debt - Due In More Than One Year	5,346,336	32,031,310	37,377,646	-
Total Liabilities	26,006,879	36,519,288	62,526,167	479,120
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenues	6,061,220	-	6,061,220	-
Deferred Gain on Debt Refunding	-	123,815	123,815	-
Deferred Inflows for Pension Obligation	3,458,625	48,406	3,507,031	2,910
Total Deferred Inflows of Resources	9,519,845	172,221	9,692,066	2,910
NET POSITION				
Net Investment in Capital Assets	47,683,664	20,315,683	67,999,347	20,000
Restricted	4,710,088	5,469,238	10,179,326	1,302,091
Restricted Funds Held as Nonexpendable Permanent Investments	3,027,302	-	3,027,302	-
Unrestricted (Deficit)	(11,335,007)	253,488	(11,081,519)	-
Total Net Position	44,086,047	26,038,409	70,124,456	1,322,091
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 79,612,771	$ 62,729,918	$ 142,342,689	$ 1,804,121

The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

STATEMENT OF ACTIVITIES

Year ended June 30, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			
Functions/Program	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	Component Units
Primary Government								
Governmental Activities								
Legislative	$ 56,364	$ -	$ -	$ -	$ (56,364)	$ -	$ (56,364)	$ -
General Government	1,862,426	620,090	231,110	2,000	(1,009,226)	-	(1,009,226)	-
Public Safety	4,029,437	100,647	155,321	-	(3,773,469)	-	(3,773,469)	-
Public Works	5,269,694	139,910	1,698,961	1,961,877	(1,468,946)	-	(1,468,946)	-
Health and Welfare	1,496,747	1,035,055	-	-	(461,692)	-	(461,692)	-
Recreation and Culture	2,421,866	913,519	-	464,054	(1,044,293)	-	(1,044,293)	-
Other Expenses	413,906	-	-	-	(413,906)	-	(413,906)	-
Interest Expense	299,411	-	-	-	(299,411)	-	(299,411)	-
Total Governmental Activities	15,849,851	2,809,221	2,085,392	2,427,931	(8,527,307)	-	(8,527,307)	-
Business-type Activities								
Water and Sewer	5,715,123	6,836,129	-	-	-	1,121,006	1,121,006	-
Parking Deck	678,335	26,952	176,014	-	-	(475,369)	(475,369)	-
Parking	230,371	188,057	-	-	-	(42,314)	(42,314)	-
Total Business-type Activities	6,623,829	7,051,138	176,014	-	-	603,323	603,323	-
Total Primary Government	22,473,680	9,860,359	2,261,406	2,427,931	(8,527,307)	603,323	(7,923,984)	-
Component Units								
EDC	226,153	94,086	-	-	-	-	-	(132,067)
BRA	1,962	-	-	-	-	-	-	(1,962)
DDA	336,209	49,190	-	-	-	-	-	(287,019)
TIFA III	234,792	-	-	-	-	-	-	(234,792)
LFDA	37,000	-	-	-	-	-	-	(37,000)
Total Component Units	836,116	143,276	-	-	-	-	-	(692,840)
Total	$ 23,309,796	$ 10,003,635	$ 2,261,406	$ 2,427,931				
	General Revenues and Transfers							
	Property Taxes				7,037,680	-	7,037,680	596,501
	State Revenue Sharing				1,493,504	-	1,493,504	-
	Federal, State and Local				-	-	-	584,154
	Investment Earnings				189,288	18,402	207,690	26,753
	Loss on Disposal of Fixed Assets				(253,280)	-	(253,280)	-
	Transfers				2,126,453	(1,622,261)	504,192	(504,192)
	Total General Revenues and Transfers				10,593,645	(1,603,859)	8,989,786	703,216
	Change in Net Position				2,066,338	(1,000,536)	1,065,802	10,376
	Net Position - Beginning, *as restated*				42,019,709	27,038,945	69,058,654	1,311,715
	Net Position - Ending				$ 44,086,047	$ 26,038,409	$ 70,124,456	$ 1,322,091

 The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General	Major Street	Local Street	Capital Projects	Other Non-major Governmental	Total Governmental
ASSETS						
Cash and Equivalents -						
Unrestricted	$ 1,924,245	$ 2,870	$ 2,604	$ 4,176,012	$ 4,043,093	$ 10,148,824
Restricted	-	-	-	-	482,003	482,003
Investments - Restricted	-	-	-	-	1,242,436	1,242,436
Accounts Receivable	310,103	634	-	76,878	87,221	474,836
Pledges Receivable	-	-	-	127,387	-	127,387
Taxes Receivable	6,061,220	-	-	-	-	6,061,220
Special Assessments Receivable	16,049	9,418	86,413	34,624	249,450	395,954
Due from Other Funds	245,633	-	-	-	13,070	258,703
Due from Governmental Units	516,627	167,618	89,146	197,073	2,817,740	3,788,204
Long-term Advances Receivable	-	-	-	-	866,549	866,549
Inventory	26,043	-	-	-	-	26,043
Prepaid Expenditures	46,496	-	-	115,800	-	162,296
Total Assets	$ 9,146,416	$ 180,540	$ 178,163	$ 4,727,774	$ 9,801,562	$ 24,034,455
LIABILITIES						
Accounts Payable	$ 242,874	$ 20,620	$ 6,893	$ 156,027	$ 1,338,078	$ 1,764,492
Accrued Liabilities	234,291	463	463	-	-	235,217
Due to Other Funds	7,144	5,823	-	-	199,196	212,163
Long-term Advances Payable	-	-	-	690,359	176,190	866,549
Total Liabilities	484,309	26,906	7,356	846,386	1,713,464	3,078,421
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenues	6,061,220	9,418	86,413	162,011	249,450	6,568,512
FUND BALANCES						
Non-Spendable	72,539	-	-	115,800	3,027,302	3,215,641
Restricted	-	144,216	84,394	153,609	3,882,043	4,264,262
Committed	1,803,993	-	-	3,449,968	-	5,253,961
Assigned	-	-	-	-	929,303	929,303
Unassigned	724,355	-	-	-	-	724,355
Total Fund Balances	2,600,887	144,216	84,394	3,719,377	7,838,648	14,387,522
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 9,146,416	$ 180,540	$ 178,163	$ 4,727,774	$ 9,801,562	

Reconciliation to amounts reported for governmental activities in the statement of net position	
Capital assets used by governmental activities	52,914,763
Special assessments receivable recognized as revenue	379,905
Pledges receivable recognized as revenue	127,387
Long-term notes and leases payable for governmental activities	(6,109,385)
Net pension obligation and related deferred inflows and outflows of resources	(18,908,420)
Compensated absences	(532,707)
Internal service funds included in governmental activities	1,888,448
Accrued interest expense payable	(61,466)
Net Position of Governmental Activities	$ 44,086,047

The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

Year ended June 30, 2015

	General	Major Street	Local Street	Capital Projects	Other Non-major Governmental	Total Governmental
REVENUES						
Taxes	$ 6,775,507	$ -	$ -	$ 16	$ 262,157	$ 7,037,680
Special Assessments	144,060	5,969	31,719	17,637	60,326	259,711
Licenses and Permits	39,626	-	-	-	-	39,626
Federal Sources	69,253	-	-	92,930	-	162,183
State Sources	1,806,093	1,212,008	414,107	163,003	77,435	3,672,646
Local Sources	-	-	-	1,610,443	348,135	1,958,578
Charges for Services	2,221,808	-	-	-	8,850	2,230,658
Rentals	38,641	-	-	-	-	38,641
Interest Earnings	53,514	990	8,009	1,136	122,423	186,072
Other Revenue	60,668	-	-	213,420	514,347	788,435
Total Revenues	11,209,170	1,218,967	453,835	2,098,585	1,393,673	16,374,230
EXPENDITURES						
Legislative	46,425	-	-	-	-	46,425
General Government	1,942,405	-	-	-	-	1,942,405
Public Safety	4,516,144	-	-	-	-	4,516,144
Public Works	842,398	1,258,884	658,361	-	-	2,759,643
Health and Welfare	1,290,496	-	-	-	-	1,290,496
Recreational and Cultural	1,549,840	-	-	-	183,663	1,733,503
Capital Outlay	203,039	11,934	-	3,268,475	183,608	3,667,056
Debt Service	-	-	-	-	1,296,844	1,296,844
Other Expenditures	43,496	-	-	-	282,063	325,559
Total Expenditures	10,434,243	1,270,818	658,361	3,268,475	1,946,178	17,578,075
REVENUES OVER (UNDER) EXPENDITURES	774,927	(51,851)	(204,526)	(1,169,890)	(552,505)	(1,203,845)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	565,192	267,253	42,253	1,372,044	7,060,894	9,307,636
Operating Transfer Out	(1,137,800)	(210,900)	(145,861)	(966,719)	(4,240,103)	(6,701,383)
Total Other Financing Sources (Uses)	(572,608)	56,353	(103,608)	405,325	2,820,791	2,606,253
NET CHANGE IN FUND BALANCES	202,319	4,502	(308,134)	(764,565)	2,268,286	1,402,408
Fund Balance, Beginning of Year	2,398,568	139,714	392,528	4,483,942	5,570,362	12,985,114
Fund Balance, End of Year	$ 2,600,887	$ 144,216	$ 84,394	$ 3,719,377	$ 7,838,648	$ 14,387,522

The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES

Year ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	$ 1,402,408
The Change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is capitalized and is allocated over their estimated useful lives and reported as depreciation expense.	
Governmental capital assets	3,109,266
Accumulated depreciation	(2,974,625)
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.	(223,744)
Pledges receivable are long-term in nature and are collectible over several years. However, only the current receipts are reflected as revenues in the funds.	57,229
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	986,366
Net change in pension obligation and related deferred inflows and outflows of resources.	(55,685)
An internal services 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.	(202,724)
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	(43,220)
Accrued interest	11,067
Change in Net Position of Governmental Activities	$ 2,066,338

The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2015

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Parking Deck	Nonmajor Funds	Totals	
ASSETS					
Cash and Equivalents - Unrestricted	$ -	$ 51,806	$ 996,475	$ 1,048,281	$ 1,168,491
Cash and Equivalents - Restricted	5,456,454	-	12,784	5,469,238	-
Accounts Receivable	369,966	9,229	-	379,195	6,861
Special Assessments Receivables	35,095	-	-	35,095	-
Debt Guarantee Receivable	-	22,790	-	22,790	-
Inventories	168,643	-	-	168,643	78,701
Other Assets	-	-	-	-	76,881
Capital Assets (Not Depreciated)	3,413,109	107,050	199,278	3,719,437	-
Capital Assets (Net of Accumulated Depreciation)	45,800,530	5,676,064	23,839	51,500,433	878,286
Total Assets	55,243,797	5,866,939	1,232,376	62,343,112	2,209,220
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Loss on Debt Refunding	170,611	-	-	170,611	-
Deferred Outflows for Pension Obligation	78,251	-	-	78,251	-
Total Deferred Outflows of Resources	248,862	-	-	248,862	-
Total Assets and Deferred Outflows of Resources	$ 55,492,659	$ 5,866,939	$ 1,232,376	$ 62,591,974	$ 2,209,220
LIABILITIES					
Accounts Payable	$ 28,361	$ 1,757	$ 8,705	$ 38,823	$ 44,781
Accrued Liabilities	232,562	17,883	1,580	252,025	78,549
Due to Other Funds	-	33,789	-	33,789	-
Unearned Revenue	18,632	-	-	18,632	-
Compensated Absences - Due Within One Year	18,260	-	641	18,901	6,556
Compensated Absences - Due In More Than One Year	129,594	1,901	2,977	134,472	19,153
Net Pension Obligation	1,152,248	-	-	1,152,248	-
Long-term Debt - Due Within One Year	2,579,686	293,191	-	2,872,877	-
Long-term Debt - Due In More Than One Year	27,539,460	4,491,850	-	32,031,310	-
Total Liabilities	31,698,803	4,840,371	13,903	36,553,077	149,039
DEFERRED INFLOWS OF RESOURCES					
Deferred Gain on Debt Refunding	-	123,815	-	123,815	-
Deferred Inflows for Pension Obligations	48,406	-	-	48,406	-
Total Deferred Inflows of Resources	48,406	123,815	-	172,221	-
NET POSITION					
Net Investment in Capital Assets	19,094,493	998,073	223,117	20,315,683	878,286
Restricted	5,456,454	-	12,784	5,469,238	-
Unrestricted	(805,497)	(95,320)	982,572	81,755	1,181,895
Total Net Position	23,745,450	902,753	1,218,473	25,866,676	2,060,181
Total Liabilities, Deferred Inflows of Resources and and Net Position	$ 55,492,659	$ 5,866,939	$ 1,232,376		$ 2,209,220

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

Internal Service Funds Included in Business-type Activities	171,733
Net Position of Business-type Activities	$ 26,038,409

The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

Year ended June 30, 2015

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Parking Deck	Nonmajor Funds	Totals	
Operating revenue					
Charges for Services	$ 6,547,692	$ 26,952	$ 188,057	$ 6,762,701	$ 3,021,395
Other Revenue	288,437	-	-	288,437	1,901
Total Operating Revenue	6,836,129	26,952	188,057	7,051,138	3,023,296
Operating expenses					
Personnel	1,521,454	11,512	116,139	1,649,105	499,994
Supplies	257,125	1,518	6,333	264,976	473,256
Contracted Services	1,038,991	37,546	26,123	1,102,660	115,609
Parking Lot Expenses	-	-	69,703	69,703	-
Insurance	95,400	5,300	6,200	106,900	986,256
Utilities	390,598	29,609	-	420,207	48,734
Repairs and Maintenance	75,031	1,419	838	77,288	223,403
Rental	94,414	-	-	94,414	-
Depreciation	1,502,329	140,150	6,937	1,649,416	284,511
Other Expenses	16,399	-	-	16,399	55,847
Total Operating Expenses	4,991,741	227,054	232,273	5,451,068	2,687,610
OPERATING INCOME (LOSS)	1,844,388	(200,102)	(44,216)	1,600,070	335,686
Nonoperating revenues (expenses)					
Local Sources	-	176,014	-	176,014	-
Interest Income	17,538	67	797	18,402	3,217
Interest Expense	(773,182)	(329,123)	-	(1,102,305)	-
Other	(4,200)	(128,083)	-	(132,283)	-
Total Nonoperating Revenues (Expenses)	(759,844)	(281,125)	797	(1,040,172)	3,217
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,084,544	(481,227)	(43,419)	559,898	338,903
Transfers					
Operating Transfers In	7,504,110	495,750	108,104	8,107,964	232,628
Operating Transfers Out	(9,462,488)	(70,600)	(197,137)	(9,730,225)	(712,428)
Total Transfers	(1,958,378)	425,150	(89,033)	(1,622,261)	(479,800)
CHANGE IN NET POSITION	(873,834)	(56,077)	(132,452)	(1,062,363)	(140,897)
Net Position, Beginning of Year - *as restated*	24,619,284	958,830	1,350,925	26,929,039	2,201,078
Net Position, End of Year	$ 23,745,450	$ 902,753	$ 1,218,473	$ 25,866,676	$ 2,060,181

The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2015

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water and Sewer	Parking Deck	Non-major Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers or Users	$ 6,891,584	$ 58,009	$ 188,057	$ 7,137,650	$ 2,949,190
Cash Payments to Vendors	(1,941,637)	(88,717)	(52,652)	(2,083,006)	(2,026,502)
Cash Paid to Employees	(1,525,606)	(9,611)	(116,359)	(1,651,576)	(498,679)
Internal Activity - Payments/Receipts with Other Funds	(88,969)	(5,000)	(58,711)	(152,680)	-
Net Cash Provided (Used) by Operating Activities	3,335,372	(45,319)	(39,665)	3,250,388	424,009
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES					
Local Sources	-	153,224	-	153,224	-
Other Revenue (Expenses)	(4,200)	(128,083)	-	(132,283)	-
Operating Transfers In	7,504,110	495,750	108,104	8,107,964	232,628
Operating Transfers Out	(9,462,488)	(70,600)	(197,137)	(9,730,225)	(712,428)
Net Cash Provided (Used) by Non-capital and Related Financing Activities	(1,962,578)	450,291	(89,033)	(1,601,320)	(479,800)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Net Proceeds from New Debt	5,125,884	4,911,055	-	10,036,939	-
Purchase of Capital Assets	(3,116,406)	(101,550)	-	(3,217,956)	(178,721)
Interest Payments	(786,529)	(331,322)	-	(1,117,851)	-
Principal Payments	(2,460,000)	(4,890,000)	-	(7,350,000)	-
Net Cash Used by Capital and Related Financing Activities	(1,237,051)	(411,817)	-	(1,648,868)	(178,721)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Income	17,538	67	797	18,402	3,217
NET INCREASE (DECREASE) IN CASH	153,281	(6,778)	(127,901)	18,602	(231,295)
Cash, Beginning of Year	5,303,173	58,584	1,137,160	6,498,917	1,399,786
Cash, End of Year	$ 5,456,454	$ 51,806	$ 1,009,259	$ 6,517,519	$ 1,168,491
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 1,844,388	$ (200,102)	$ (44,216)	$ 1,600,070	$ 335,686
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	1,502,329	140,150	6,936	1,649,415	284,512
Change in Assets and Liabilities					
(Increase) Decrease in Assets:					
Accounts Receivable	55,455	31,057	-	86,512	2,775
Inventory	6,736	-	-	6,736	4,769
Other Assets	-	-	-	-	(76,881)
Increase (Decrease) in Liabilities:					
Accounts Payable	(68,460)	(697)	(2,306)	(71,463)	4,195
Accrued Liabilities	(924)	(17,628)	(79)	(18,631)	(132,362)
Compensated Absences	6,117	1,901	-	8,018	1,315
Change in Pension Obligation	(10,269)	-	-	(10,269)	-
Net Cash Provided (Used) by Operating Activities	$ 3,335,372	$ (45,319)	$ (39,665)	$ 3,250,388	$ 424,009

The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION OF PROPRIETARY FUNDS
TO THE STATEMENT OF ACTIVITIES

June 30, 2015

Net changes in fund balances - total proprietary funds	$ (1,062,363)
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.	61,827
Changes in net position of business-type activities	$ (1,000,536)

The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

STATEMENT OF FIDUCIARY NET POSITION

Year ended June 30, 2015

	Employee Retirement Plan	Agency Funds
ASSETS		
Cash and Equivalents - Unrestricted	$ -	$ 2,115
Restricted Investments, at Fair Value:		
Mutual Funds	-	2,781,180
Equity Securities	15,062,163	-
Total Investments	15,062,163	2,781,180
Total Assets	$15,062,163	$ 2,783,295
LIABILITIES		
Accounts Payable	$ -	$ 2,115
Accrued Liabilities	-	2,768,429
Due to Other Funds	-	12,751
Total Liabilities	-	$ 2,783,295
NET POSITION		
Held in Trust for Pension Benefits and Other Purposes	$15,062,163	

The accompanying notes are an integral part of these financial statements.

City of Sault Ste. Marie

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year ended June 30, 2015

	Employee Retirement Plan
ADDITIONS	
Contributions	
Employer	$ 1,317,356
Employee	172,834
Total Contributions	1,490,190
Investment Earnings (Losses)	
Net Decrease in Fair Value of Investments	(857,054)
Interest and Dividends	601,576
Total Net Investment Losses	(255,478)
Total Additions	1,234,712
DEDUCTIONS	
Benefits	1,702,409
Administrative Expenses	86,676
Total Deductions	1,789,085
NET CHANGE IN NET POSITION	(554,373)
Net Position, Beginning of Year	15,616,536
Net Position, End of Year	$15,062,163

The accompanying notes are an integral part of these financial statements.

COMPONENT UNITS

City of Sault Ste. Marie

STATEMENT OF NET POSITION - COMPONENT UNITS

June 30, 2015

	EDC	BRA	DDA	TIFA III	LDFA	Total
ASSETS						
Cash and Equivalents - Unrestricted	$ 385,830	$ 45,244	$ 344,555	$ 339,447	$ 319	$ 1,115,395
Investments - Unrestricted	148,590	-	-	228,353	-	376,943
Accounts Receivable	-	-	26,345	-	125	26,470
Special Assessments Receivable	-	-	11,367	-	-	11,367
Debt Guarantee Receivable	-	-	-	-	203,911	203,911
Due from Other Governmental Units	-	-	45,331	-	-	45,331
Capital Assets Not Depreciated	20,000	-	-	-	-	20,000
TOTAL ASSETS	554,420	45,244	427,598	567,800	204,355	1,799,417
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows for Pension Obligation	1,425	-	3,279	-	-	4,704
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 555,845	$ 45,244	$ 430,877	$ 567,800	$ 204,355	$ 1,804,121
LIABILITIES						
Accounts Payable	$ 28,855	$ 3,520	$ 88,123	$ 23,164	$ -	$ 143,662
Accrued Liabilities	-	-	2,324	-	-	2,324
Unearned Revenue	-	-	11,367	-	-	11,367
Accrued Compensated Absences	19,692	-	6,110	-	-	25,802
Debt Guarantee Liabilities	-	-	22,790	203,911	-	226,701
Net Pension Obligation	20,779	-	48,485	-	-	69,264
TOTAL LIABILITIES	69,326	3,520	179,199	227,075	-	479,120
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows for Pension Obligation	2,037	-	873	-	-	2,910
NET POSITION						
Net Investment in Capital Assets	20,000	-	-	-	-	20,000
Restricted for Component Unit Purpose	464,482	41,724	250,805	340,725	204,355	1,302,091
TOTAL NET POSITION	484,482	41,724	250,805	340,725	204,355	1,322,091
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 555,845	$ 45,244	$ 430,877	$ 567,800	$ 204,355	$ 1,804,121

City of Sault Ste. Marie

STATEMENT OF NET ACTIVITIES - COMPONENT UNITS

Year Ended June 30, 2015

		Program Revenues		Net (Expense)/ Revenue and Change in Net Position					
Functions/ Programs	Expenses	Charges for Services	Operating Grants and Contributions	EDC	BRA	DDA	TIFA III	LDFA	Total
Economic Development Corp.									
Economic Development	$ 226,153	$ 94,086	$ -	$ (132,067)	$ -	$ -	$ -	$ -	$ (132,067)
BRA									
Economic Development	1,962	-	-	-	(1,962)	-	-	-	(1,962)
DDA									
Economic Development	336,209	49,190	-	-	-	(287,019)	-	-	(287,019)
TIFA									
Economic Development	234,792	-	-	-	-	-	(234,792)	-	(234,792)
LDFA									
Economic Development	37,000	-	-	-	-	-	-	(37,000)	(37,000)
Total Component Units	$ 836,116	$ 143,276	$ -	$ (132,067)	$ (1,962)	$ (287,019)	$ (234,792)	$ (37,000)	$ (692,840)
General Revenues and Transfers									
Taxes				$ -	$ 43,686	$ 299,141	$ 220,123	$ 33,551	$ 596,501
Local Sources				110,000	-	172,618	-	203,911	486,529
State Sources				-	-	45,331	-	-	45,331
Investment Earnings				22,387	-	2,284	1,889	193	26,753
Other				38,036	-	14,258	-	-	52,294
Transfers				4,000	-	(371,950)	(110,442)	(25,800)	(504,192)
Total General Revenues and Transfers				174,423	43,686	161,682	111,570	211,855	703,216
Change in Net Position				42,356	41,724	(125,337)	(123,222)	174,855	10,376
Net Position - Beginning, *as restated*				442,126	-	376,142	463,947	29,500	1,311,715
Net Position - Ending				$ 484,482	$ 41,724	$ 250,805	$ 340,725	$ 204,355	$ 1,322,091

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The ***City of Sault Ste. Marie*** (the "City") was incorporated June 26, 1917, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). 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.

The Financial 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 and its component units (traditionally separate reporting units) for which the City may or may not be financially accountable and, as such, be includable within the City's financial statements. In accordance with generally accepted accounting principles, the City is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization and (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

Based on this criteria, the City has identified the following blended and discretely presented component units requiring inclusion in the City's financial statements:

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 as a component unit because it imposes a specific financial benefit to the City and services exclusively or almost exclusively benefit the City.

Government-Wide Financial Statements

The government-wide financial statements 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, such as overhead costs, has been eliminated 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.

Internal service funds are consolidated mostly into the governmental column when presented at the government-wide level. This is because the principle users of the internal service are the City's governmental activities. The net profit/loss in the internal service funds is allocated to the functional activity (public safety, public works, etc.) based upon usage.

In the government-wide statement of net position, both the governmental and business-type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The City's net position is reported in four parts - invested in capital assets, net of related debt; restricted net position; expendable and nonexpendable funds held as permanent investments; and unrestricted net position.

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

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 enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds, together with internal service funds and fiduciary funds, are aggregated and reported as nonmajor funds. Major funds are generally the General Fund and those that represent 10% or more of the respective fund types assets, liabilities, revenues or expenses/expenditures. However, the City has elected to also report the Major and Local Street Funds as major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the City are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The City applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurements focus applied.

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.

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.

The fiduciary funds are generally maintained on the accrual basis which is consistent with the accounting measurement objectives of the funds.

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 the current financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheet. An exception to this general rule is long-term interfund advances payable. Under the modified accrual basis of accounting, revenues are recognized when they are susceptible to accrual; that is when they are both measurable and available. Property tax revenues are recognized in the year for which they are levied, to the extent they are available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after period-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.

Fund Types and Major Funds

Activities in Major Funds

Governmental Funds

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those 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 Fund* accounts for the activity related to the acquisition or construction of governmental capital assets under various projects.

Proprietary (Enterprise) 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.

Activities in Non-Major Funds

Governmental Funds

Special Revenue Funds. These funds account for revenue sources that are restricted or committed to current expenditures for specific purposes.

Debt Services 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 or construction of capital assets not being financed by proprietary funds.

Permanent Funds. These funds account for resources provided to the City. The principal portion of which must stay intact, with the interest earnings used to provide for City purposes defined by each fund.

Proprietary Funds

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.

Fiduciary Funds

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.

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 Cash 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.

For the purpose of the statement of cash flows, the City considers all highly liquid investments, including all certificates of deposit all restricted investments, with a maturity of 90 days or less, to be cash equivalents.

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 employee benefit plan for pension trust investments.

Receivables and Payables

All receivables are reported at their face value, except the General Fund ambulance receivable which is shown net of an estimated allowance for uncollectible accounts of $142,700.

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 reported as "due to/from other funds." Any balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Property Taxes

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

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

Inventories

Inventory is valued at cost, which approximates market, using the first-in, first-out method.

Prepaid 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 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 defined 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 asset 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

Capital assets are evaluated annually for impairment.

Compensated Absences (Personal, Vacation and Sick Time)

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. A portion of fund balance in the General Fund has been committed for payment of compensated absences not recorded as a liability in the governmental funds.

Long-Term Obligations

In the government-wide financial statements and the 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 statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are expensed as incurred. Deferred gain or loss on bond refundings are shown as deferred inflows or outflows of resources.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources. Bond premiums and discounts, as well as bond issuance costs are recognized during the period in which the bonds were issued. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Financial guarantees between the City and its component units are reported as debt guarantee liabilities and expenses in the unit providing the guarantee and guarantor receivables and revenue in the unit receiving the guarantee. The guarantees are measured at the discounted present value of the best estimate of future outflows expected under the guarantee.

Deferred Inflows and Outflows of Resources

In addition to assets and liabilities, the government-wide and proprietary fund statements of net position and governmental funds balance sheet will sometimes report separate sections for deferred outflows and deferred inflows of resources. Deferred inflows of resources represent 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. Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The City recognized unavailable receivables not received within 60 days of year-end and unavailable property taxes as deferred inflows of resources in the governmental fund financial statements. Gains or losses on debt refunding as are deferred and amortized over the life of the bonds, and shown as deferred outflows or inflows of resources, as applicable, in the government-wide and proprietary fund financial statements. Deferred inflows and outflows of resources have also been recognized concurrent with the City's pension obligation.

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

State, Federal and other 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.

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.

Restricted: This classification includes amounts for which constraints have been placed on the usage 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 Commission. These amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed.

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.

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.

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.

The City has adopted a policy to maintain a minimum unrestricted fund balance in its General Fund ranging from 15% to 20% of the current fiscal years operational expenditures and routine and recurring outgoing transfers, and a minimum unassigned fund balance plus accrued compensated absences at 8% or higher.

Pensions

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System ("MERS") of Michigan and the City of Sault Ste. Marie Firemen and Policemen Retirement System ("The Retirement System"), collectively referred to as the pension plans, and additions to/deductions from Plan fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements, in conformity with 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - ACCOUNTING CHANGES AND PRIOR YEAR RESTATEMENT

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 68 requires employers to report net pension benefits as a liability in the statement of net position. GASB 68 requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. GASB 68 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability.

In April 2013, the Governmental Accounting Standards Board ("GASB") issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. A nonexchange financial guarantee occurs when a government extends a financial guarantee for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximate value in exchange. The statement requires governments that extend these guarantees recognize a liability if quantitative factors and historical data, if any, indicate it is more likely than not that the government will be required to make a payment on the guarantee. The City recognized financial guarantees at June 30, 2015. No restatement of net position was necessary.

The City's EDC component unit recognized a correction to the advance provided by the City as a prior period restatement.

The City implemented GASB 68 during the year by retroactive restatement of June 30, 2014 net position.

Restatement of net position for the items above are as follows:

	Primary Government		
	Governmental Activities	Water and Sewer Fund	Business-type Activities
Net position at June 30, 2014, *as originally stated*	$ 60,872,444	$ 25,751,956	$ 28,171,617
Record net pension obligation at June 30, 2014	(18,852,735)	(1,132,672)	(1,132,672)
Net position at June 30, 2014, *as restated*	$ 42,019,709	$ 24,619,284	$ 27,038,945

	Component Units		
	EDC	DDA	Component Units
Net position at June 30, 2014, *as originally stated*	$ 565,354	$ 423,791	$ 1,482,592
Record net pension obligation at June 30, 2014	(20,437)	(47,649)	(68,086)
Correction to advance from primary government	(102,791)	-	(102,791)
Net position at June 30, 2014, *as restated*	$ 442,126	$ 376,142	$ 1,311,715

NOTE C - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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 June 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 General and Special Revenue Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Major Governmental Funds for which budgets were legally adopted.

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.

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2015, the following functions incurred total expenditures in excess of amounts appropriated for expenditures:

Fund	Final Budget	Amount of Expenditures	Budget Variance
General Fund - Health and Welfare	$ 1,258,500	$ 1,290,496	$ 31,996
General Fund - Recreation and Culture	1,315,600	1,328,540	12,940
Major Street Fund - Transfers Out	185,500	210,900	25,400
Local Street Fund - Transfers Out	128,700	145,861	17,161

NOTE D - DEPOSITS AND INVESTMENTS

At June 30, 2015, the City's cash and investments include the following:

	Primary Government		Component Unit		Fiduciary Funds	
	Deposits	Investments	Deposits	Investments	Deposits	Investments
Carrying amounts						
Cash and equivalents	$ 8,562,619	$ 300,263	$ 1,115,395	$ -	$ 2,115	$ -
Restricted cash and cash equivalents	5,951,241	-	-	-	-	-
Investments	3,502,714	-	376,943	-	-	-
Restricted investments	-	1,242,436	-	-	-	17,843,343
	$18,016,574	$ 1,542,699	$ 1,492,338	$ -	$ 2,115	$17,843,343

Deposits

Michigan law permits the City to deposit in the accounts of Federally insured banks, credit unions and savings and loans associations located in Michigan.

Custodial Credit Risk

In the event of bank failure, the City's uninsured deposits may not be returned to it. As of June 30, 2015, $17,118,826 of the City's deposits and certificate of deposit investments bank balances were exposed to custodial credit risk because they were uninsured and uncollateralized.

Investments

Statutory Authority

City investments are subject to 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.

Under State law, the City Commission by resolution may authorize its investment officer to invest the funds of the City 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.

h. Obligations descried 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.

A broader range of investments are allowed for the City's Employee Retirement Plan under the Public Employee Retirement System Investment Act, Michigan Public Act 345 of 1937, as amended, and the City's Public Employee Health Care Agency Fund under the Public Employee Health Care Funds Public Act 149 of 1999.

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

These deposits and investments are in various financial institutions in varying amounts. All accounts are in the name of the City and specific funds. Investments are recorded in City records at fair market value and certificate of deposits are recorded at cost plus accrued interest. Interest is recorded when the deposits mature or is credited to the applicable account.

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At June 30, 2015, the City's certificate of deposits and investments consisted of the following:

Investment Type	Fair Market Value	Weighted Average Maturity (Years)	Standard and Poors Rating
Certificates of deposit	$ 3,879,656	0.13	
Equity mutual funds	14,257,479	-	
Bond mutual funds	2,689,820	-	
Michigan CLASS investment pools	300,263	-	AAAm
Money market mutual funds	102,108	-	
Equity securities	69,439	-	
Bonds:			
U.S. Treasury bond	1,172,997	8.28	AA+
Kohls Corp NT	108,756	2.46	BBB
Pitney Bowes Inc. MTM	86,490	2.34	BBB
Hewlett-Packard CO Notes	75,051	2.37	BBB+
Goldman Sachs Grp Inc. MTN BE	62,031	2.63	A-
Royal Bank of Scotland PLC	48,007	4.33	BBB+
Barclays Bank PCL MTN FR	35,505	0.58	A-
JP Morgan Chase & Co SUB GLBL NT	25,232	0.25	A-
China Development Bank Bond	23,250	0.29	AA-
Partnerre Finance Notes	22,494	2.92	A-
HSBC Fin Corp HSBC Fin	22,060	-	A
Vesey STR INVT TR I PERP SR NT	20,715	1.18	A
Bank of America Corp Note	20,330	1.13	A-
GE Capital Internotes	15,102	1.94	AA+
Bank Amer Corp Sr Internotes BE	10,464	1.21	A-
Pitney Bowes Inc. GLBL MTNS BE	6,360	2.88	BBB
Torchmark Corp Note	6,223	3.96	A
Gulf Power Co Sr Nt-M	5,312	1.42	A
Aegon N V SR NT	5,077	0.42	A-
Cash Equivalents	195,478	-	
Total portfolio	$23,265,699	40.72	

Credit Risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by: Limiting investments to the type of securities allowed by law and pre-qualifying the financial institution, broker/dealers, intermediaries and advisors with which the City will do business. The City's policy does not further limit its investment choices.

The City's investment in equity securities, equity mutual funds, bond mutual funds, money market mutual funds, and cash equivalents are uncategorized as to credit risk. All investments are held in the name of the City and are uninsured and uncollateralized.

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.

NOTE E - 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. Earning 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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NOTE F - CAPITAL ASSETS

Capital asset activity for the primary government for the year ended June 30, 2015 was as follows:

	Beginning Balance	Capital Acquisitions	Sales and Other Dispositions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Construction in Progress	$ 1,665,859	$ 1,710,892	$ (545,335)	$ 2,831,416
Land	2,661,339	-	(2,237)	2,659,102
Subtotal	4,327,198	1,710,892	(547,572)	5,490,518
Capital assets being depreciated:				
Buildings and Improvements	18,029,562	190,654	(624,586)	17,595,630
Land Improvements	6,496,426	313,890	-	6,810,316
Furniture and Equipment	9,943,351	363,003	(377,027)	9,929,327
Infrastructure	64,435,667	1,936,139	-	66,371,806
Intangibles - Easements	69,969	-	-	69,969
Subtotal	98,974,975	2,803,686	(1,001,613)	100,777,048
Less accumulated depreciation:				
Buildings and Improvements	(4,961,666)	(472,937)	203,390	(5,231,213)
Land Improvements	(2,528,332)	(339,525)	-	(2,867,857)
Furniture and Equipment	(7,649,381)	(556,263)	374,639	(7,831,005)
Infrastructure	(34,395,114)	(2,135,915)	-	(36,531,029)
Intangibles - Easements	(3,481)	(9,932)	-	(13,413)
Subtotal	(49,537,974)	(3,514,572)	578,029	(52,474,517)
Net capital Assets Being Depreciated	49,437,001	(710,886)	(423,584)	48,302,531
Governmental Activities, Net Capital Assets	$ 53,764,199	$ 1,000,006	$ (971,156)	$ 53,793,049

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

Governmental Activities	
General Government	$ 200,857
Public Safety	215,339
Public Works	2,524,632
Recreation and Culture	573,744
Total Deprecation Expense - Governmental Activities	$ 3,514,572

	Beginning Balance	Capital Acquisitions	Sales and Other Dispositions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Construction in Progress	$ 574,806	$ 2,937,582	$ -	$ 3,512,388
Land	207,049	-	-	207,049
Subtotal	781,855	2,937,582	-	3,719,437
Capital assets being depreciated:				
Buildings and Improvements	23,630,966	-	-	23,630,966
Equipment	2,241,911	137,264	(23,312)	2,355,863
Water and Sewer	54,123,459	143,112	-	54,266,571
Subtotal	79,996,336	280,376	(23,312)	80,253,400
Less accumulated depreciation:				
Buildings and improvements	(12,038,686)	(474,067)	-	(12,512,753)
Equipment	(1,219,989)	(86,876)	23,312	(1,283,553)
Water and sewer	(13,868,188)	(1,088,473)	-	(14,956,661)
Subtotal	(27,126,863)	(1,649,416)	23,312	(28,752,967)
Net capital assets being depreciated	52,869,473	(1,369,040)	-	51,500,433
Business-type activities net capital assets	$ 53,651,328	$ 1,568,542	$ -	$ 55,219,870

Business - type Activities	
Water and Sewer	$ 1,502,329
Parking Deck	140,150
Parking	6,937
Total Deprecation Expense - Business-type Activities	$ 1,649,416

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

	Beginning Balance	Capital Acquisitions	Sales and Other Dispositions	Ending Balance
Capital assets not being depreciated:				
Land	$ 20,000	$ -	$ -	$ 20,000
Capital assets being depreciated:				
Vehicles	18,889	-	-	18,889
Equipment	29,444	-	-	29,444
Subtotal	48,333	-	-	48,333
Less Accumulated Depreciation:				
Vehicles	(18,889)	-	-	(18,889)
Equipment	(29,444)	-	-	(29,444)
Subtotal	(48,333)	-	-	(48,333)
Net Capital Assets Being Depreciated	-	-	-	-
Capital assets - Net of depreciation	$ 20,000	$ -	$ -	$ 20,000

No depreciation expense was charged to economic development.

NOTE G - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due From/To Other Funds

The amounts of interfund receivables and payables within the primary government are as follows:

	Interfund Receivables	Interfund Payables
General Fund	$ 245,633	$ 7,144
Major Street Fund	-	5,823
Nonmajor Governmental Funds	13,070	199,196
Parking Deck Fund	-	33,789
Agency Funds	-	12,751
Total	$ 258,703	$ 258,703

The interfund balances are mainly for property taxes, material and inventory usage, building rent and equipment.

Long-term Advances Receivable/Payable

The amounts of interfund long-term advances within the primary government are as follows:

	Interfund Advances Receivables	Interfund Advances Payables
Capital Projects Fund	$ -	$ 690,359
Nonmajor Funds:		
Seal Trust Operating Fund	-	176,190
Seal Estate Trust Fund	392,907	-
Governor Osborn Trust Fund	473,642	-
Total	$ 866,549	$ 866,549

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.

Operating Transfers In/Out

Operating transfers within the primary government are as follows:

	Transfers In	Transfers Out
General Fund	$ 492,194	$ 1,067,800
Major Street Fund	267,253	210,900
Local Street Fund	42,253	145,861
Capital Projects Fund	1,349,100	966,719
Nonmajor Governmental Funds	6,925,594	4,240,103
Water and Sewer Fund	7,504,110	9,462,488
Parking Deck Fund	74,200	-
Nonmajor Enterprise Fund	108,104	197,137
Internal Service Funds	232,628	704,428
Total	$16,995,436	$16,995,436

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) move 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.

Operating transfers between the primary government and the component units are as follows:

	Transfers In	Transfers Out
EDC Fund	$ 4,000	$ -
DDA Fund	152,800	524,750
TIFA III Fund	-	110,442
LDFA Fund	35,000	60,800
General Fund	72,998	70,000
Capital Projects	22,944	-
Nonmajor Governmental Funds	135,300	-
Parking Deck Fund	421,550	70,600
Internal Service Funds	-	8,000
Total	$ 844,592	$ 844,592

The operating transfers are mainly for right-of-way, debt service and general operations.

NOTE H - LONG-TERM DEBT

The City 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 City. City contractual agreements and installment purchase agreements are also general obligations of the City.

Bond and contractual obligation activity is summarized as follows:

	Beginning Balance	New Debt	Payments/ Adjustments	Ending Balance	Current Balance
PRIMARY GOVERNMENT					
Governmental activities					
2005 General Obligation Limited Tax Bonds, maturing serially to 2016 in annual payments ranging form $50,000 to $175,000 and bearing interest ranging from 2.5% to 3.75%.	$ 350,000	$ -	$ 175,000	$ 175,000	$ 175,000
2000 Michigan Transportation Authority Bonds, maturing serially to 2015 in annual payments ranging from $25,000 to $160,000 and bearing interest ranging from 5% to 5.3%.	310,000	-	150,000	160,000	160,000

	Beginning Balance	New Debt	Payments/ Adjustments	Ending Balance	Current Balance
1997 Building Authority Bonds, maturing serially to 2015 in annual amounts ranging form $45,000 to $70,000 and bearing interest ranging from 5.15% to 5.5%.	$ 135,000	$ -	$ 65,000	$ 70,000	$ 70,000
1994 Recreational Building Authority Note maturing serially to 2019 in annual amounts of $35,000 including interest at 5.38%.	142,357	-	25,565	116,792	25,731
2004 CDBG non-interest bearing loan, due in equal annual installments of $39,500 for 10 years beginning July 1, 2005.	49,375	-	39,500	9,875	9,875
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%.	575,000	-	55,000	520,000	55,000
2010 LTGO Build America Bonds, maturing serially to 2029 due annually with payments ranging form $155,000 to $380,000 including interest ranging from 1.5% to 6.45%.	4,025,000	-	165,000	3,860,000	175,000
2006 General Obligation Municipal Installment Purchase Contract Note, maturing serially to 2021 in semiannual installments of $31,518 including interest at 4.6%.	404,824	-	47,106	357,718	47,443
Advance from Economic Development Corporation (a component unit of the City), for R&B Electronics, maturing in 2017 with annual installments ranging from $3,500 to $51,315 including interest at 5%.	71,705	-	71,705	-	-
CDBG Loan for FTZ and R&B R&B Buildings, maturing in 2017 with annual installments ranging from $375 to $21,300 including interest at 5%.	59,700	-	59,700	-	-

	Beginning Balance	New Debt	Payments/ Adjustments	Ending Balance	Current Balance
Advance from Economic Development Corporation (a component unit of the City), for FTZ building, maturing in 2017 with two payments of $38,890 in 2016 and $63,900 in 2017 including interest at 5%.	$ 102,790	$ -	$ 102,790	$ -	$ -
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%.	870,000	-	30,000	840,000	45,000
Total governmental activities - bonds payable	7,095,751	-	986,366	6,109,385	763,049
Compensated absences, net	513,880	44,536	-	558,416	57,679
Total governmental activities - long term debt	$ 7,609,631	$ 44,536	$ 986,366	$ 6,667,801	$ 820,728
Business-type activities					
1998 State Drinking Water Revolving Fund Loan, maturing serially to 2020 in annual installments ranging form $195,000 to $260,000 and bearing interest at 2.5%.	$ 1,465,000	$ -	$ 230,000	$ 1,235,000	$ 235,000
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%.	1,335,000	-	210,000	1,125,000	215,000
1995 State Revolving Fund (CSO) Loan, maturing serially at 2017 in annual installments ranging from $190,000 to $230,000 and bearing interest at 2.25%.	680,000	-	220,000	460,000	230,000
2005 Downtown Development Bonds, maturing serially to 2026 in annual installments beginning November 2006, ranging from $85,000 to $565,000 bearing interest ranging from 4.25% to 4.4%, refunded on April 29, 2015.	4,890,000	-	4,890,000	-	-

	Beginning Balance	New Debt	Payments/ Adjustments	Ending Balance	Current Balance
2015 Downtown Development Refunding Bonds, maturing serially to 2027 in annual installments ranging from $280,000 and $515,000 and bearing interest ranging from 2% to 3%.	$ -	$ 4,700,000	$ -	$ 4,700,000	$ 280,000
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 2.5%.	1,900,000	-	170,000	1,730,000	175,000
2003 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds, maturing serially to 2024 in annual installments ranging form $130,000 to $195,000 and bearing interest at 2.5%.	1,755,000	-	155,000	1,600,000	160,000
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 2.5%.	910,607	-	95,000	815,607	95,000
1997 Limited Tax General Obligation Bonds, maturing serially to 2017 in annual installments ranging from $35,000 to $65,000 and bearing interest ranging from 4.9% to 5.3%.	235,000	-	55,000	180,000	55,000
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%.	175,000	-	35,000	140,000	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%.	545,000	-	35,000	510,000	35,000

	Beginning Balance	New Debt	Payments/ Adjustments	Ending Balance	Current Balance
2013 Chippewa County CSO Refunding Bonds, maturing serially to 2029 in annual installments ranging form $310,000 to $650,000 and bearing interest ranging from 2% to 4.5%.	$ 7,040,000	$ -	$ 355,000	$ 6,685,000	$ 310,000
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%.	4,737,707	-	215,000	4,522,707	220,000
2011 Water Supply and Sewage Disposal System Refunding Bonds, maturing serially to 2022 in annual installments ranging from $250,000 and $475,000 and bearing interest ranging from 2% to 3.625%.	3,830,000	-	500,000	3,330,000	500,000
2012 LTGO Refunding Bonds, maturing serially to 2024 in annual installments ranging form $180,000 to $310,000 and bearing interest ranging from 2% to 4%.	2,550,000	-	185,000	2,365,000	205,000
2014 Clean Water Program State Revolving Fund 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 2.5%.	-	1,561,284	-	1,561,284	-
2014 Drinking Water Revolving Fund Program CSO Water Supply and Sewage Disposal System Revenue Bond, maturing serially to 2036 in annual installments ranging form $200,000 to $320,000, begriming 2018, and bearing interest at 2.5%.	-	1,247,487	-	1,247,487	-
2015 LTGO Capital Improvement Bonds, maturing serially to 2035 in annual installments ranging from $90,000 to $150,000 and bearing interest ranging from 2% to 3.25%.	-	2,285,000	-	2,285,000	95,000
Total business-type activities - bonds payable	32,048,314	9,793,771	7,350,000	34,492,085	2,845,000
2011 Refunding Bond Premium	71,596	-	8,950	62,646	8,950

	Beginning Balance	New Debt	Payments/ Adjustments	Ending Balance	Current Balance
2013 Refunding Bond Premium	$ 248,073	$ -	$ 15,504	$ 232,569	$ 15,504
2015 Refunding Bond Premium	-	85,936	895	85,041	5,371
2015 Capital Improvement Bond Premium	-	32,113	267	31,846	1,606
2013 Refunding - Deferred loss on refunding	(181,985)	-	(11,374)	(170,611)	(11,374)
2015 Refunding - Deferred gain on refunding	-	125,119	1,304	123,815	7,820
Compensated Absences - (net)	145,575	7,798	-	153,373	18,901
Total business- type activities - long-term debt	32,331,573	10,044,737	7,365,546	35,010,764	2,891,778
Total Long-Term Debt	$ 39,941,204	$ 10,089,273	$ 8,351,912	$ 41,678,565	$ 3,712,506
COMPONENT UNIT					
Economic Development Corporation					
Compensated Absences - (net)	$ 18,656	$ 1,036	$ -	$ 19,692	$ -
DDA					
Compensated Absences	$ 3,515	$ 2,595	$ -	$ 6,110	$ -

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

	Governmental Activities		Business-type Activities	
Years Ending	Principal	Interest	Principal	Interest
2016	$ 763,049	$ 297,680	$ 2,845,000	$ 929,864
2017	371,367	274,797	2,845,000	880,450
2018	389,702	259,466	3,435,000	798,000
2019	423,184	242,493	3,470,000	707,721
2020	429,187	223,606	3,095,000	621,077
2021 - 2025	2,057,896	799,783	11,504,378	1,785,838
2026 - 2030	1,675,000	283,631	5,995,000	1,750,782
2031 - 2035	-	-	1,302,707	208,514
	$ 6,109,385	$ 2,381,456	$34,492,085	$ 7,682,246

Debt Refunding

During the year ended June 30, 2015, the City refunded the 2005 Downtown Development Bonds. The refunding resulted in a cash flow savings of $604,681, and an economic gain of $515,408.

Financial Guarantees

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. In the year ended June 30, 2015, 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, 2015 is as follow:

Beginning of Year	Increases	Decreases	End of Year
$ -	$ 22,790	$ -	$ 22,790

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. In the year ended June 30, 2015, 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 Component Unit and receivable recognized in the LDFA Component Unit at June 30, 2015 is as follows:

Beginning of Year	Increases	Decreases	End of Year
$ -	$ 203,911	$ -	$ 203,911

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 $737,591 at June 30, 2015. 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.

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NOTE I - FUND BALANCES AND NET POSITION

Restricted fund balances and net position are classified as follows:

Governmental Funds	Major Street Fund	Local Street Fund	Capital Projects	Other Non-Major Funds	Total
Restricted for:					
Streets and Improvements	$ 144,216	$ 84,394	$ -	$ -	$ 228,610
Capital Projects	-	-	153,609	3,340,745	3,494,354
Trust Operations	-	-	-	99,925	99,925
Debt Service	-	-	-	441,373	441,373
Total Restricted Fund Balance	$ 144,216	$ 84,394	$ 153,609	$ 3,882,043	4,264,262
Pledges for Pullar Renovations					127,387
Special Assessment Districts					379,905
Total Restricted Net Position					$ 4,771,554
Non-spendable/Nonexpendable Permanent Investments					
Seal Estate Trust					$ 1,665,264
Osborn Estate Trust					966,714
Cemetery Perpetual Care					395,324
Total Funds Held as Nonexpendable Permanent Investments					$ 3,027,302

Enterprise Funds	Water and Sewer	Other Non-Major Funds	Business-Type Activities
Restricted for:			
Debt Service and Bond Covenants	$5,456,454	$ -	$5,456,454
Parking	-	12,784	12,784
	$5,456,454	$ 12,784	$5,469,238

Fiduciary Funds	Employee Retirement Plan
Restricted for:	
Pension Benefits	$5,062,163

The City Commission has committed the following fund balances for the year ended June 30, 2015 as follows:

Fire Equipment Replacement	$ 460,097
Carbide Dock	548,504
General Capital Commitments	10,000
Fort Street Bridge Reassembly	250,000
Unspent Trident Donation Funds	3,179
Compensated absences within the General Fund	532,213
Capital project capital commitments	3,449,968
Total Committed Fund Balance	$ 5,253,961

The City has assigned fund balance for special projects of $233,652 in the Other Special Revenue Fund and $695,651 assigned for road projects in the Road Contingency Fund.

NOTE J - PROPERTY TAXES

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

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

The taxable value of real and personal property located in the City at December 31, 2013 totaled $282,809,043. The tax levy on July 1, 2014 was based on the following rates:

	Millage Rate Used
General Operating	16.8139
Police/Fire Pension	4.9152
Solid Waste	0.5632

NOTE K - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City'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.

The City provides medical benefits to its employees through self-insurance. Blue Cross Blue Shield is the third party administrator. The City has stop loss coverage for any claims exceeding $30,000 through December 31, 2014 and $40,000 through June 30, 2015.

A health insurance claims liability reported in accrued liabilities in the Employee Health Insurance Fund at June 30, 2015, is based on claims reported or incurred but not reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The claims liability is reported based on information from the third party administrator. No annuity contracts have been purchased for the claims liability.

The changes in the claims for the year ended June 30, 2015 is as follows:

Beginning of year liability	$ 170,800
Current year claims and changes in estimates	298,081
Claim payments	421,781
End of year liability	$ 47,100

NOTE L - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Municipal Employees Retirement Systems

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 include financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com

The City adopted new 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.

Benefits Provided

Benefits provided include plans with multipliers ranging from 1.5% to 2.25%.

Vesting periods range for 6 to 10 years.

Normal retirement age is 60 with early retirement at 55 with 15 years of service, or 50 with 25 years of service.

Final average compensation is calculated based on 3 years. Members contributions range from 4.7% to 6.17%.

Employees covered by benefit terms

At the December 31, 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	85
Inactive employees entitled to but not yet receiving benefits	8
Active employees	79
	172

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 2.92% to 4.26% 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 employer's Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3%-4%

Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively).

Investment rate of return: 8.0%, net of investment expense, including inflation.

Although no specific price inflation assumption are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 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 8.25% for 2014. 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.

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Changes in Net Pension Liability - City

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2013	$ 26,270,643	$ 19,919,647	$ 6,350,996
Changes for the Year			
Service Cost	394,578	-	394,578
Interest on Total Pension Liability	2,106,980	-	2,106,980
Difference Between Expected and Actual Experience	-	-	-
Changes in Assumptions	-	-	-
Employer Contributions	-	465,673	(465,673)
Employee Contributions	-	336,576	(336,576)
Net Investment Income	-	1,238,540	(1,238,540)
Benefit Payments, Including Employee Refunds	(1,857,565)	(1,857,565)	-
Administrative Expense	-	(45,299)	45,299
Other Changes	-	-	-
Net Changes	643,993	137,925	506,068
Balances as of December 31, 2014	$ 26,914,636	$ 20,057,572	$ 6,857,064

Changes in Net Pension Liability - EDC

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2013	$ 79,608	$ 60,363	$ 19,245
Changes for the Year			
Service Cost	1,196	-	1,196
Interest on Total Pension Liability	6,385	-	6,385
Difference Between Expected and Actual Experience	-	-	-
Changes in Assumptions	-	-	-
Employer Contributions	-	1,411	(1,411)
Employee Contributions	-	1,020	(1,020)
Net Investment Income	-	3,753	(3,753)
Benefit Payments, Including Employee Refunds	(5,629)	(5,629)	-
Administrative Expense	-	(137)	137
Other Changes	-	-	-
Net Changes	1,951	418	1,533
Balances as of December 31, 2014	$ 81,560	$ 60,781	$ 20,779

Changes in Net Pension Liability - DDA

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2013	$ 185,752	$ 140,846	$ 44,906
Changes for the Year			
Service Cost	2,790	-	2,790
Interest on Total Pension Liability	14,899	-	14,899
Difference Between Expected and Actual Experience	-	-	-
Changes in Assumptions	-	-	-
Employer Contributions	-	3,293	(3,293)
Employee Contributions	-	2,380	(2,380)
Net Investment Income	-	8,757	(8,757)
Benefit Payments, Including Employee Refunds	(13,134)	(13,134)	-
Administrative Expense	-	(320)	320
Other Changes	-	-	-
Net Changes	4,554	975	3,579
Balances as of December 31, 2014	$ 190,307	$ 141,822	$ 48,485

Sensitivity of Net Position Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the City and its component units, calculated using the discount rate of 8.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease 7.25%	Current Discount Rate 8.25%	1% Increase 9.25%
City net pension liability	$ 9,546,436	$ 6,857,064	$ 4,554,391
EDC net pension liability	28,929	20,779	13,801
DDA net pension liability	67,500	48,485	32,203

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

For the year ended December 31, 2014, the City recognized pension expense of $938,599. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in experience	$ -	$ -
Differences in assumptions	-	-
Excess (deficit) investment returns	-	(288,068)
Contributions subsequent to the measurement date*	465,673	-
Total	$ 465,673	$ (288,068)

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending December 31, 2015.

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

Year Ended	
2015	$ (72,017)
2016	(72,017)
2017	(72,017)
2018	(72,017)
Total	$ (288,068)

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For the year ended December 31, 2014, the EDC recognized pension expense of $2,945. The EDC reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in experience	$ -	$ -
Differences in assumptions	-	-
Excess (deficit) investment returns	-	(873)
Contributions subsequent to the measurement date*	1,425	-
Total	$ 1,425	$ (873)

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending December 31, 2015.

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

Year Ended	
2015	$ (218)
2016	(218)
2017	(218)
2018	(219)
Total	$ (873)

For the year ended December 31, 2014, the DDA recognized pension expense of $6,871. The DDA reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in experience	$ -	$ -
Differences in assumptions	-	-
Excess (deficit) investment returns	-	(2,037)
Contributions subsequent to the measurement date*	3,279	-
Total	$ 3,279	$ (2,037)

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending December 31, 2015.

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

Year Ended		
2015	$	(509)
2016		(509)
2017		(509)
2018		(510)
Total	$	(2,037)

Payable to the Pension Plan

The following were reported as payables to the pension plan required for the year ended June 30, 2015:

City	$	23,262
EDC		132
DDA		304
Total	$	23,698

Defined Contribution Plan

The City's contribution to the defined contribution plan was $9,515 for the year ended June 30, 2015.

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.

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 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 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 three-year average final compensation times year of service with a maximum of 75% average final compensation (Plan B). Police sergeants hired prior to July 1, 2002 are entitled to Plan B as described above or retirees with 20 or more years of service regardless of age or age 60, regardless of service are entitled to straight life pension equal to 2.6% of three-year average compensation times the first 25 years of service plus 1% of average final compensation times years of service in excess of 25 years with a maximum of 80% average final compensation.

For all bargaining units, no benefit shall exceed 100% if 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, 2014, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries receiving benefits	58
Inactive plan members entitled to, but not yet receiving, benefits	1
Active plan members	43
Total	102
Number of participating employers	1

Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. The City's 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.

Investments representing 5% or more of the Plan's assets available for benefits are as follows at June 30, 2015:

Doubleline Total Return	$ 1,475,310
DFA US Small Cap Value	1,217,678
Ishares Russell ETF Midcap	1,045,703
DFA Emerging Mkts Value Port Instl	894,446
Schwab Fundamental Intl Large Co index	753,614
DFA Intl Small Cap Value	781,010
Schwab Fundamental U.S.	1,476,902

Funding Policy

Covered employees contribute 5.6% (Firefighters and Police Sergeants) to 6.96% (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, 2014 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 7.8% to 4.2% per year. Both (a) and (b) included an inflation component of 4.0%. 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, 2015 was 20 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 provided by the client as of June 30, 2014. 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, 2014, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.05%	(0.10)%
Domestic equity - large cap	37.79%	5.68%
Domestic equity - small cap	26.45%	6.50%
International equity	11.34%	6.46%
Emerging markets	0.00%	8.67%
Domestic corporate fixed income	14.91%	1.49%
Domestic government fixed income	7.46%	0.94%
Treasury inflation protected securities	0.00%	1.02%
High yield bonds	0.00%	2.84%
Real estate	0.00%	4.45%
Private equity	0.00%	8.75%
Hedge funds	0.00%	3.77%
Other alternatives	0.00%	4.11%
Total	100.00%	
Total real rate of return		4.89%
Plus: price inflation - actuary's assumption		3.00%
Less: admin and investment expenses		0.25%
Net expected return		7.64%

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at June 30, 2013	$ 29,014,796	$ 13,648,817	$ 15,365,979
Changes for the Year			
Service Cost	753,853	-	753,853
Interest on Total Pension Liability	1,924,835	-	1,924,835
Changes in Benefits	-	-	-
Difference Between Expected and Actual Experience	(654,167)	-	(654,167)
Changes in Assumptions	(2,306,331)	-	(2,306,331)
Employer Contributions	-	1,341,995	(1,341,995)
Employee Contributions	-	167,982	(167,982)
Net Investment Income	-	2,152,202	(2,152,202)
Benefit Payments, Including Employee Refunds	(1,666,693)	(1,666,693)	-
Administrative Expense	-	(27,767)	27,767
Other Changes	-	-	-
Net Changes	(1,948,503)	1,967,719	(3,916,222)
Balances as of June 30, 2014	$ 27,066,293	$ 15,616,536	$ 11,449,757

Single Discount Rate

A Single Discount Rate ("SDR") of 7.50% was used to measure the total pension liability. This SDR was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this 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 7.50%, 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 6.50%	Current Single Discount Rate Assumption 7.50%	1% Increase 8.50%
Total pension liability	$ 30,168,232	$ 27,066,293	$ 24,457,754
Net position restricted for pension	15,616,536	15,616,536	15,616,536
Net pension liability	$ 14,551,696	$ 11,449,757	$ 8,841,218

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

For the year ended June 30, 2014, the City recognized pension expense of $1,986,731. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in experience	$ -	$ 510,561
Differences in assumptions	-	1,800,035
Excess (deficit) investment returns	-	908,367
Contributions subsequent to the measurement date*	1,317,356	-
Total	$ 1,317,356	$ 3,218,963

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2015.

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

Year Ended	
2015	$ (876,994)
2016	(876,994)
2017	(876,994)
2018	(587,981)
Total	$ (3,218,963)

Payable to the Pension Plan

At June 30, 2015, the City reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ending June 30, 2015.

NOTE M - SEGMENT INFORMATION - ENTERPRISE FUND

Segment information for the year ended June 30, 2015 is as follows:

	Water and Sewer	Parking Deck
Nonoperating revenue (expense)	$ (759,844)	$ (281,125)
Operating income (loss)	1,844,388	(200,102)
Change in net position	(873,834)	(56,077)
Operating revenues	6,836,129	26,952
Operating expenses	4,991,741	227,054
Operating transfers - net	(1,958,378)	425,150
Depreciation	1,502,329	140,150
Total Assets	55,243,797	5,866,939
Total deferred outflows of resources	248,862	-
Current liabilities	2,877,501	346,620
Long-term liabilities	28,821,302	4,493,751
Total deferred inflows of resources	48,406	123,815
Beginning net position	24,619,284	958,830
Ending net position	23,745,450	902,753
Cash provided (used) by:		
Operating activities	3,335,372	(45,319)
Noncapital financing	(1,962,578)	450,291
Capital financing	(1,237,051)	(411,817)
Investing	17,538	67
Beginning cash	5,303,173	58,584
Ending cash	5,456,454	51,806

NOTE N - 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, 2015.

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.

NOTE O - SUBSEQUENT EVENTS

In July of 2015, the City was notified that it would receive a one-time appropriation of State of Michigan General Fund dollars in the amount of $166,503, for the state and local road and bridge program for fiscal year 2016. The funds will be distributed through August of 2016.

REQUIRED SUPPLEMENTARY INFORMATION

City of Sault Ste. Marie

SCHEDULE OF CHANGES IN THE MERS NET PENSION LIABILITY AND RELATED RATIOS

Year ended June 30, 2015

	City	EDC	DDA	Total
Total Pension Liability				
Service Cost	$ 394,578	$ 1,196	$ 2,790	$ 398,564
Interest	2,106,979	6,385	14,899	2,128,263
Changes of Benefit Terms	-	-	-	-
Difference Between Expected and Actual Experience	-	-	-	-
Changes of Assumption	-	-	-	-
Benefit Payments Including Employee Refunds	(1,857,564)	(5,629)	(13,134)	(1,876,327)
Other	-	-	-	-
Net Change in Total Pension Liability	643,993	1,952	4,555	650,500
Total Pension Liability Beginning	26,270,643	79,608	185,752	26,536,003
Total Pension Liability Ending	$26,914,636	$ 81,560	$ 190,307	$27,186,503
Plan Fiduciary Net Position				
Contributions - Employer	$ 465,673	$ 1,411	$ 3,293	$ 470,377
Contributions - Employee	336,576	1,020	2,380	339,976
Net Investment Income	1,238,540	3,753	8,757	1,251,050
Benefit Payments Including Employee Refunds	(1,857,565)	(5,629)	(13,134)	(1,876,328)
Administrative Expense	(45,299)	(137)	(320)	(45,756)
Net Change in Plan Fiduciary Net Position	137,925	418	976	139,319
Plan Fiduciary Net Position Beginning	19,919,647	60,363	140,846	20,120,856
Plan Fiduciary Net Position Ending	$20,057,572	$ 60,781	$ 141,822	$20,260,175
Employer Net Pension Liability	$ 6,857,064	$ 20,779	$ 48,485	$ 6,926,328
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	75%	75%	75%	75%
Covered Employee Payroll	$ 3,709,044	$ 11,240	$ 26,226	$ 3,746,510
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	185%	185%	185%	185%

City of Sault Ste. Marie

SCHEDULE OF CHANGES IN THE CITY'S FIRE AND POLICE NET PENSION LIABILITY AND RELATED RATIOS

Year ended June 30, 2015

	2015
Total Pension Liability	
Service Cost	$ 753,853
Interest	1,924,835
Changes of Benefit Terms	-
Difference Between Expected and Actual Experience	(654,167)
Changes of Assumption	(2,306,331)
Benefit Payments Including Employee Refunds	(1,666,693)
Other	-
Net Change in Total Pension Liability	(1,948,503)
Total Pension Liability Beginning	29,014,796
Total Pension Liability Ending	$27,066,293
Plan Fiduciary Net Position	
Contributions - Employer	$ 1,341,995
Contributions - Employee	167,982
Net Investment Income	2,152,202
Benefit Payments Including Employee Refunds	(1,666,693)
Administrative Expense	(27,767)
Net Change in Plan Fiduciary Net Position	1,967,719
Plan Fiduciary Net Position Beginning	13,648,817
Plan Fiduciary Net Position Ending	$15,616,536
Employer Net Pension Liability	$11,449,757
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	58%
Covered Employee Payroll	$ 2,626,924
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	436%

City of Sault Ste. Marie

SCHEDULE OF MERS EMPLOYER'S CONTRIBUTIONS

Year ended June 30,

	2014		
	City	EDC	DDA
Actuarial Determined Contributions			
Contributions in relation to the actuarially determined contribution	$ 467,022	$ 1,415	$ 3,302
	467,022	1,415	3,302
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered Employee Payroll	$ 3,709,044	$ 11,240	$ 26,226
Contributions as a Percentage of Covered Employee Payroll	13%	13%	13%

Notes to Schedule

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary increases	4.5%
Investment rate of return	8.0%
Retirement age	Varies depending on plan adoption
Mortality	50% female/50% male 1994 Group Annuity Mortality Table

Previous actuarial methods and assumptions:
A seven year smoothed asset valuation method was used for the time period of 2012 through 2018.
Salary increases were expected to be 1% for the time period of 2015 though 2023.

City of Sault Ste. Marie

STATEMENT OF FIDUCIARY NET POSITION

Last 10 Fiscal Years

FY Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2005	$ 696,387	$ 696,387	$ -	$ 2,288,704	30.43%
2006	761,823	761,823	-	2,257,981	33.74%
2007	830,238	830,238	-	2,691,447	30.85%
2008	825,371	825,371	-	2,504,440	32.96%
2009	876,985	876,985	-	2,575,779	34.05%
2010	921,352	921,352	-	2,679,405	34.39%
2011	1,069,760	1,069,760	-	2,628,713	40.70%
2012	1,198,491	1,198,491	-	2,510,905	47.73%
2013	1,152,727	1,152,727	-	2,697,649	42.73%
2014	1,341,995	1,341,995	-	2,626,924	51.09%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contributions 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 Contributions Rates:

Actuarial cost method	Entry age normal.
Amortization method	Level percentage of payroll, closed.
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market; 20% corridor.
Inflation	4.00% - approximate; no explicit price inflation assumption is used in this valuation.
Salary increases	4.00% to 7.80% including inflation.
Investment rate of return	7.50%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2008 valuation.
Mortality	RP-2000 Mortality Table (Combined Healthy) projected 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 20, 2012 valuation.

City of Sault Ste. Marie

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year ended June 30, 2015

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
REVENUES:				
Taxes	$ 6,645,400	$ 6,645,400	$ 6,775,507	$ 130,107
Special Assessments	87,000	87,000	144,060	57,060
Licenses and Permits	60,400	60,400	39,626	(20,774)
Federal Sources	115,000	115,000	69,253	(45,747)
State Sources	1,907,800	1,850,600	1,806,093	(44,507)
Charges for Services	2,455,500	2,365,100	2,221,808	(143,292)
Rentals	34,600	34,600	38,641	4,041
Interest Earnings	28,400	28,400	53,514	25,114
Other Revenue	31,600	43,400	60,668	17,268
TOTAL REVENUES	11,365,700	11,229,900	11,209,170	(20,730)
EXPENDITURES:				
Legislative				
City Commission	51,500	51,500	46,425	5,075
General Government				
City Manager	191,900	191,900	194,790	(2,890)
Finance	429,600	429,200	429,586	(386)
City Assessor	156,100	166,500	165,636	864
City Attorney	72,700	72,700	70,306	2,394
City Clerk	222,000	232,000	225,226	6,774
Human Resources	121,600	121,600	110,979	10,621
Cemetery	126,300	126,300	109,263	17,037
Federal Building	106,200	106,200	96,004	10,196
Non-Departmental	508,000	666,400	540,615	125,785
Total General Government	1,934,400	2,112,800	1,942,405	170,395
Public Safety				
Police	2,666,000	2,689,200	2,571,845	117,355
SANE	101,500	109,800	114,653	(4,853)
P.A. 302	4,800	4,800	-	4,800
Stonegarden	7,000	7,000	4,202	2,798
Auxiliary Police	21,200	21,200	20,523	677
Fire	1,454,400	1,466,900	1,434,985	31,915
Community Development	391,000	391,000	369,936	21,064
Total Public Safety	4,645,900	4,689,900	4,516,144	173,756
Public Works				
Engineering	240,800	240,800	224,537	16,263
Sidewalks and Alleys	139,000	139,000	110,346	28,654
Composting	144,600	144,600	163,218	(18,618)
City Cleanup	25,000	25,000	13,173	11,827
Tree Maintenance	64,500	64,500	38,397	26,103
Airport	68,900	71,400	73,073	(1,673)
Industrial Park	10,300	10,300	9,950	350
DPW Gen Svc	214,900	214,900	209,704	5,196
Total Public Works	908,000	910,500	842,398	68,102

City of Sault Ste. Marie

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND - Continued

Year ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual Amounts	
Health and Welfare				
Ambulance	$ 1,258,500	$ 1,258,500	$ 1,290,496	$ (31,996)
Recreation and Culture				
Part Time Seasonal	16,300	16,300	14,961	1,339
Marina	211,100	211,100	203,094	8,006
Osborn	9,700	9,700	9,758	(58)
Parks	545,400	545,400	529,970	15,430
Pullar	401,200	401,200	446,290	(45,090)
Carbide Dock	15,300	15,300	11,557	3,743
Historic Homes	27,200	27,200	27,126	74
Recreation	89,700	89,400	85,784	3,616
Total Recreation and Culture	1,315,900	1,315,600	1,328,540	(12,940)
Capital Outlay	68,900	218,366	203,039	15,327
Other Expenditures				
Insurance and Bonds	40,500	40,500	28,334	12,166
General Appropriations	413,500	221,300	221,300	-
Community Promotions	-	14,400	15,162	(762)
Total Other Expenditures	454,000	276,200	264,796	11,404
TOTAL EXPENDITURES	10,637,100	10,833,366	10,434,243	399,123
REVENUES OVER (UNDER) EXPENDITURES	728,600	396,534	774,927	378,393
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	539,900	527,900	565,192	37,292
Operating Transfers Out	(1,287,900)	(1,213,800)	(1,137,800)	76,000
Total Other Financing Sources (Uses)	(748,000)	(685,900)	(572,608)	113,292
NET CHANGE IN FUND BALANCES	$ (19,400)	$ (289,366)	202,319	$ 491,685
Fund Balance, Beginning of Year			2,398,568	
Fund Balance, End of Year			$ 2,600,887	

City of Sault Ste. Marie

BUDGETARY COMPARISON SCHEDULE FOR THE MAJOR STREETS FUND

Year ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual Amounts	
REVENUES				
Special Assessments	$ 5,000	$ 5,000	$ 5,969	$ 969
State Grants	913,600	1,118,600	1,212,008	93,408
Interest Earnings	2,700	2,700	990	(1,710)
Total Revenues	921,300	1,126,300	1,218,967	92,667
EXPENDITURES				
Public Works	993,400	1,370,300	1,258,884	111,416
Capital Outlay	10,000	75,000	11,934	63,066
Total Expenditures	1,003,400	1,445,300	1,270,818	174,482
REVENUES UNDER EXPENDITURES	(82,100)	(319,000)	(51,851)	267,149
OTHER FINANCING SOURCES				
Operating Transfers In	185,000	385,000	267,253	(117,747)
Operating Transfers Out	(210,900)	(185,500)	(210,900)	(25,400)
Total Other Financing Sources	(25,900)	199,500	56,353	(143,147)
NET CHANGE IN FUND BALANCE	$ (108,000)	$ (119,500)	4,502	$ 124,002
Fund Balance, Beginning of Year			139,714	
Fund Balance, End of Year			$ 144,216	

City of Sault Ste. Marie

BUDGETARY COMPARISON SCHEDULE FOR THE LOCAL STREETS FUND

Year ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual Amounts	
REVENUES				
Special Assessments	$ 60,000	$ 60,000	$ 31,719	$ (28,281)
State Sources	406,900	406,900	414,107	7,207
Interest Earnings	6,400	6,400	8,009	1,609
Total Revenues	473,300	473,300	453,835	(19,465)
EXPENDITURES				
Public Works	712,900	712,900	658,361	54,539
REVENUES OVER EXPENDITURES	(239,600)	(239,600)	(204,526)	35,074
OTHER FINANCING SOURCES				
Operating Transfers In	-	-	42,253	42,253
Operating Transfers Out	(128,700)	(128,700)	(145,861)	(17,161)
Total Other Financing Sources (Uses)	(128,700)	(128,700)	(103,608)	25,092
NET CHANGE IN FUND BALANCE	$ (368,300)	$ (368,300)	(308,134)	$ 60,166
Fund Balance, Beginning of Year			392,528	
Fund Balance, End of Year			$ 84,394	

OTHER SUPPLEMENTARY INFORMATION

City of Sault Ste. Marie

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Special Revenue Funds					Debt Service Funds
	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Other Special Revenue	Road Contingency	Debt Service
ASSETS						
Cash and Equivalents - Unrestricted	$ 327,980	$ 33,199	$ 21,918	$ 225,683	$ 635,651	$ 415,890
Cash and Equivalents - Restricted	-	-	-	-	-	-
Investments - Restricted	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	60,000	25,484
Special Assessments Receivable	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-
Due from Governmental Units	-	-	-	8,969	-	-
Long-term Advances Receivable	-	-	-	-	-	-
Total Assets	$ 327,980	$ 33,199	$ 21,918	$ 234,652	$ 695,651	$ 441,374
LIABILITIES						
Accounts Payable	$ 79,107	$ 31	$ -	$ 1,000	$ -	$ 1
Due to Other Funds	5,926	-	-	-	-	-
Long-term Advances Payable	176,190	-	-	-	-	-
Total Liabilities	261,223	31	-	1,000	-	1
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenues	-	-	-	-	-	-
FUND BALANCES						
Non-spendable	-	-	-	-	-	-
Restricted	66,757	33,168	21,918	-	-	441,373
Assigned	-	-	-	233,652	695,651	-
Total Fund Balances	66,757	33,168	21,918	233,652	695,651	441,373
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 327,980	$ 33,199	$ 21,918	$ 234,652	$ 695,651	$ 441,374

City of Sault Ste. Marie

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - Continued

June 30, 2015

	Capital Projects Funds			Permanent Trust Funds			
	CSO Phase C	CSO Phase C-3	Public Works Building	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	Total Non-Major Funds
ASSETS							
Cash and Equivalents - Unrestricted	$ 200,227	$ 150,039	$ 1,610,999	$ 93,434	$ 2,638	$ 325,435	$ 4,043,093
Cash and Equivalents - Restricted	-	-	-	-	482,003	-	482,003
Investments - Restricted	-	-	-	1,172,997	-	69,439	1,242,436
Accounts Receivable	-	-	-	-	1,287	450	87,221
Special Assessments Receivable	249,450	-	-	-	-	-	249,450
Due from Other Funds	-	-	-	5,926	7,144	-	13,070
Due from Governmental Units	-	2,808,771	-	-	-	-	2,817,740
Long-term Advances Receivable	-	-	-	392,907	473,642	-	866,549
Total Assets	$ 449,677	$ 2,958,810	$ 1,610,999	$ 1,665,264	$ 966,714	$ 395,324	$ 9,801,562
LIABILITIES							
Accounts Payable	$ 134	$ 1,250,930	$ 6,875	$ -	$ -	$ -	$ 1,338,078
Due to Other Funds	-	193,270	-	-	-	-	199,196
Long-term Advances Payable	-	-	-	-	-	-	176,190
Total Liabilities	134	1,444,200	6,875	-	-	-	1,713,464
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenues	249,450	-	-	-	-	-	249,450
FUND BALANCES							
Non-spendable	-	-	-	1,665,264	966,714	395,324	3,027,302
Restricted	200,093	1,514,610	1,604,124	-	-	-	3,882,043
Assigned	-	-	-	-	-	-	929,303
Total Fund Balances	200,093	1,514,610	1,604,124	1,665,264	966,714	395,324	7,838,648
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 449,677	$ 2,958,810	$ 1,610,999	$ 1,665,264	$ 966,714	$ 395,324	$ 9,801,562

City of Sault Ste. Marie

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2015

	Special Revenue Funds					Debt Service Funds
	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Other Special Revenue	Road Contingency	Debt Service
REVENUES						
Taxes	$ -	$ -	$ -	$ -	$ 262,157	$ -
Special Assessments	-	-	-	-	-	-
State Sources	-	-	-	4,589	-	72,846
Local Sources	-	-	348,135	-	-	-
Charges for Services	-	-	-	-	-	-
Interest Earnings	1,376	164	-	-	21	10
Other Revenue	3,570	-	-	373,208	60,000	77,484
Total Revenues	4,946	164	348,135	377,797	322,178	150,340
EXPENDITURES						
Recreation and Culture	96,275	47,388	40,000	-	-	-
Capital Outlay	-	-	-	-	-	-
Debt Service	-	-	-	-	-	1,296,844
Other Expenditures	-	-	-	7,911	-	-
Total Expenditures	96,275	47,388	40,000	7,911	-	1,296,844
REVENUES OVER (UNDER) EXPENDITURES	(91,329)	(47,224)	308,135	369,886	322,178	(1,146,504)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	144,667	32,742	35,570	17,273	455,382	1,246,944
Operating Transfers Out	-	-	(329,000)	(210,496)	(284,500)	-
Total Other Financing Sources (Uses)	144,667	32,742	(293,430)	(193,223)	170,882	1,246,944
NET CHANGE IN FUND BALANCE	53,338	(14,482)	14,705	176,663	493,060	100,440
Fund Balance, Beginning of Year	13,419	47,650	7,213	56,989	202,591	340,933
Fund Balance, End of Year	$ 66,757	$ 33,168	$ 21,918	$ 233,652	$ 695,651	$ 441,373

City of Sault Ste. Marie

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS - Continued

Year ended June 30, 2015

	Capital Projects Funds			Permanent Trust Funds			
	CSO Phase C	CSO Phase C-3	Public Works Building	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	Totals
REVENUES							
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ 262,157
Special Assessments	60,326	-	-	-	-	-	60,326
State Sources	-	-	-	-	-	-	77,435
Local Sources	-	-	-	-	-	-	348,135
Charges for Services	-	-	-	-	-	8,850	8,850
Interest Earnings	18,910	272	3,979	74,334	20,048	3,309	122,423
Other Revenue	-	85	-	-	-	-	514,347
Total Revenues	79,236	357	3,979	74,334	20,048	12,159	1,393,673
EXPENDITURES							
Recreation and Culture	-	-	-	-	-	-	183,663
Capital Outlay	-	161,319	22,289	-	-	-	183,608
Debt Service	-	-	-	-	-	-	1,296,844
Other Expenditures	-	258,445	-	15,562	145	-	282,063
Total Expenditures	-	419,764	22,289	15,562	145	-	1,946,178
REVENUES OVER (UNDER) EXPENDITURES	79,236	(419,407)	(18,310)	58,772	19,903	12,159	(552,505)
OTHER FINANCING SOURCES (USES)							
Operating Transfers In	-	5,125,884	-	-	-	2,432	7,060,894
Operating Transfers Out	(46,000)	(3,281,062)	(10,700)	(64,667)	(12,742)	(936)	(4,240,103)
Total Other Financing Sources (Uses)	(46,000)	1,844,822	(10,700)	(64,667)	(12,742)	1,496	2,820,791
NET CHANGE IN FUND BALANCE	33,236	1,425,415	(29,010)	(5,895)	7,161	13,655	2,268,286
Fund Balance, Beginning of Year	166,857	89,195	1,633,134	1,671,159	959,553	381,669	5,570,362
Fund Balance, End of Year	$ 200,093	$ 1,514,610	$ 1,604,124	$ 1,665,264	$ 966,714	$ 395,324	$ 7,838,648

City of Sault Ste. Marie

COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS

June 30, 2015

	Information Systems	Stock and Equipment	Employee Health Insurance	Totals
ASSETS				
Cash and Equivalents - Unrestricted	$ 426,347	$ 414,587	$ 327,557	$ 1,168,491
Accounts Receivable	3,000	3,861	-	6,861
Due from other funds	-	-	-	-
Inventories	-	78,701	-	78,701
Other Assets	-	-	76,881	76,881
Capital Assets (Net of Accumulated Depreciation)	224,830	653,456	-	878,286
Total Assets	$ 654,177	$ 1,150,605	$ 404,438	$ 2,209,220
LIABILITIES				
Accounts Payable	$ 6,335	$ 38,446	$ -	$ 44,781
Accrued Liabilities	1,786	21,421	55,342	78,549
Compensated Absences - due within one year	-	6,556	-	6,556
Compensated Absences - due in more than one year	849	18,304	-	19,153
Total Liabilities	8,970	84,727	55,342	149,039
NET POSITION				
Net Investment in Capital Assets	224,830	653,456	-	878,286
Unrestricted	420,377	412,422	349,096	1,181,895
Total Net Position	645,207	1,065,878	349,096	2,060,181
Total Liabilities and Net Position	$ 654,177	$ 1,150,605	$ 404,438	$ 2,209,220

City of Sault Ste. Marie

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - INTERNAL SERVICE FUNDS

Year ended June 30, 2015

	Information Systems	Stock and Equipment	Employee Health Insurance	Totals
Operating Revenues				
Charges for Services	$ 311,800	$ 1,572,766	$ 1,136,829	$ 3,021,395
Other Revenue	-	1,901	-	1,901
Total Operating Revenues	311,800	1,574,667	1,136,829	3,023,296
Operating Expenses				
Personnel	98,396	401,598	-	499,994
Supplies	34,314	438,942	-	473,256
Contractual Services	5,654	109,955	-	115,609
Utilities	19	48,715	-	48,734
Repair and Maintenance	30,905	192,498	-	223,403
Insurance	-	34,900	951,356	986,256
Depreciation	89,869	194,642	-	284,511
Other Expenses	54,842	1,005	-	55,847
Total Operating Expenses	313,999	1,422,255	951,356	2,687,610
OPERATING INCOME (LOSS)	(2,199)	152,412	185,473	335,686
Non-Operating Revenues (Expenses)				
Interest on Deposits	-	944	2,273	3,217
INCOME (LOSS) BEFORE TRANSFERS	(2,199)	153,356	187,746	338,903
Operating Transfers In	10,600	222,028	-	232,628
Operating Transfers Out	-	(312,428)	(400,000)	(712,428)
Total Transfers	10,600	(90,400)	(400,000)	(479,800)
CHANGE IN NET POSITION	8,401	62,956	(212,254)	(140,897)
Net Position, Beginning of Year	636,806	1,002,922	561,350	2,201,078
Net Position, End of Year	$ 645,207	$ 1,065,878	$ 349,096	$ 2,060,181

City of Sault Ste. Marie

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS

Year ended June 30, 2015

	Information Systems	Stock and Equipment	Employee Health Insurance	Totals
Cash Flows From Operating Activities:				
Cash Received from Customers or Users	$ 311,800	$ 1,577,442	$ 1,059,948	$ 2,949,190
Cash Payments to Vendors	(121,196)	(821,039)	(1,084,267)	(2,026,502)
Cash Paid to Employees	(100,371)	(398,308)	-	(498,679)
Net Cash Provided (Used) by Operating Activities	90,233	358,095	(24,319)	424,009
Cash Flows From Non-Capital and Related Financing Activities:				
Operating Transfers In	10,600	222,028	-	232,628
Operating Transfers Out	-	(312,428)	(400,000)	(712,428)
Net Cash Provided (Used) for Non-Capital and Related Financing Activities	10,600	(90,400)	(400,000)	(479,800)
Cash Flows From Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(56,552)	(122,169)	-	(178,721)
Cash Flows From Investing Activities:				
Interest Income	-	944	2,273	3,217
Net Increase (Decrease) in Cash	44,281	146,470	(422,046)	(231,295)
Cash and Equivalents at Beginning of Year	382,066	268,117	749,603	1,399,786
Cash and Equivalents at End of Year	$ 426,347	$ 414,587	$ 327,557	$ 1,168,491
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	$ (2,199)	$ 152,412	$ 185,473	$ 335,686
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	89,870	194,642	-	284,512
Changes in Assets and Liabilities:				
Decrease (Increase) in Assets:				
Accounts Receivable	-	2,775	-	2,775
Inventory	8,599	(3,830)	-	4,769
Other Assets	-	-	(76,881)	(76,881)
Increase (Decrease) in Liabilities:				
Accounts Payable	(3,633)	7,828	-	4,195
Accrued Liabilities	(429)	978	(132,911)	(132,362)
Compensated Absences	(1,975)	3,290	-	1,315
Net Cash Provided (Used) by Operating Activities	$ 90,233	$ 358,095	$ (24,319)	$ 424,009

City of Sault Ste. Marie

COMBINING STATEMENT OF NET POSITION - NON-MAJOR ENTERPRISE FUNDS

June 30, 2015

	Parking	Sewer Plant Equipment Replacement	Water Equipment Replacement	Totals
ASSETS				
Cash and Equivalents - Unrestricted	$ 71,491	$ 627,827	$ 297,157	$ 996,475
Cash and Equivalents - Restricted	12,784	-	-	12,784
Capital Assets Not Depreciated	199,278	-	-	199,278
Capital Assets (Net of Accumulated Depreciation)	23,839	-	-	23,839
Total Assets	$ 307,392	$ 627,827	$ 297,157	$ 1,232,376
LIABILITIES				
Accounts Payable	$ 8,705	$ -	$ -	$ 8,705
Accrued Liabilities	1,580	-	-	1,580
Compensated Absences - due within one year	641	-	-	641
Compensated Absences - due in more than one year	2,977	-	-	2,977
Total Liabilities	13,903	-	-	13,903
NET ASSETS				
Net Investment in Capital Assets, net of related debt	223,117	-	-	223,117
Restricted	12,784	-	-	12,784
Unrestricted	57,588	627,827	297,157	982,572
Total Net Position	293,489	627,827	297,157	1,218,473
Total Liabilities and Net Position	$ 307,392	$ 627,827	$ 297,157	$ 1,232,376

City of Sault Ste. Marie

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - NON-MAJOR ENTERPRISE FUNDS

Year ended June 30, 2015

	Parking	Sewer Plant Equipment Replacement	Water Equipment Replacement	Totals
Operating Revenues				
Charges for Services	$ 188,057	$ -	$ -	$ 188,057
Operating Expenses				
Personnel	116,139	-	-	116,139
Supplies	6,333	-	-	6,333
Contracted Services	26,123	-	-	26,123
Parking Lot Expenses	69,703	-	-	69,703
Insurance	6,200	-	-	6,200
Repair and Maintenance	838	-	-	838
Depreciation	6,937	-	-	6,937
Total Operating Expenses	232,273	-	-	232,273
Operation Income (Loss)	(44,216)	-	-	(44,216)
Non-Operating Revenues (Expenses)				
Interest on Deposits	282	364	151	797
Income (Loss) Before Transfers	(43,934)	364	151	(43,419)
Transfers				
Operating Transfers In	28,100	-	80,004	108,104
Operating Transfers Out	(5,000)	(153,637)	(38,500)	(197,137)
Total Transfers	23,100	(153,637)	41,504	(89,033)
CHANGE IN NET POSITION	(20,834)	(153,273)	41,655	(132,452)
Net Position, Beginning of Year	314,323	781,100	255,502	1,350,925
Net Position, End of Year	$ 293,489	$ 627,827	$ 297,157	$ 1,218,473

City of Sault Ste. Marie

COMBINING STATEMENT OF CASH FLOWS - NON-MAJOR ENTERPRISE FUNDS

Year ended June 30, 2015

	Parking	Sewer Plant Equipment Replacement	Water Equipment Replacement	Totals
Cash Flows From Operating Activities:				
Cash Received from Customers or Users	$ 188,057	$ -	$ -	$ 188,057
Cash Payments to Vendors	(52,652)	-	-	(52,652)
Cash Paid to Employees	(116,359)	-	-	(116,359)
Internal Activity- Payments/Receipts with Other Funds	(58,711)	-	-	(58,711)
Net Cash Provided (Used) by Operating Activities	(39,665)	-	-	(39,665)
Cash Flows From Non-Capital and Related Financing Activities:				
Operating Transfers In	28,100	-	80,004	108,104
Operating Transfers Out	(5,000)	(153,637)	(38,500)	(197,137)
Net Cash Provided (Used) for Non-Capital and Related Financing Activities	23,100	(153,637)	41,504	(89,033)
Cash Flows From Investing Activities:				
Interest Income	282	364	151	797
Net Increase (Decrease) in Cash	(16,283)	(153,273)	41,655	(127,901)
Cash and Equivalents at Beginning of Year	100,558	781,100	255,502	1,137,160
Cash and Equivalents at End of Year	$ 84,275	$ 627,827	$ 297,157	$ 1,009,259
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	$ (44,216)	$ -	$ -	$ (44,216)
Add Non-Cash Expenses:				
Depreciation	6,936	-	-	6,936
Increases (Decreases) in Liabilities:				
Accounts Payable	(2,306)	-	-	(2,306)
Accrued Liabilities	(79)	-	-	(79)
Net Cash Provided (Used) by Operating Activities	$ (39,665)	$ -	$ -	$ (39,665)

ADDITIONAL INFORMATION

CITY OF SAULT STE. MARIE, MICHIGAN

ADDITIONAL INFORMATION

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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, 2015, appears on page 1. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. 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. The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Dennis, Gartland & Niergarth

November 30, 2015

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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, 2015, the City has the following debt issues of $1,000,000 or more, some of which may apply to SEC Rule 15c2-12.

1. 1995 $3,819,699 State Revolving Fund CSO Loan.

2. 1998 $3,820,000 State Revolving Fund CSO Loan.

3. 1998 $4,155,000 State Drinking Water Revolving Fund Loan.

4. 2001 $1,790,607 State Drinking Water Revolving Fund Loan.

5. 2002 $3,385,000 State Revolving Fund CSO Loan.

6. 2003 $3,135,000 State Drinking Water Revolving Fund Loan.

7. 2015 $4,700,000 Refunding of Downtown Development Authority Parking Deck Bonds.

8. 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).

9. 2010 $7,955,000 State Revolving Fund CSO Loan, reduced by ARRA principal forgiveness to $5,189,000.

10. 2010 $4,505,000 LTGO Build America Bonds.

11. 2011 $4,790,000 Chippewa County Water Supply and Sewage Disposal System Refunding Bonds (City of Sault Ste. Marie).

12. 2012 $2,730,000 LTGO Revenue Refunding Bonds (Refunding Chippewa County Issues of 1995, 1998 and 2001).

13. 2015 $7,325,000 State Revolving Fund CSO Loan.

14. 2015 $5,120,000 State Drinking Water Revolving Fund CSO Loan.

15. 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

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

City of Sault Ste. Marie
Taxable Value
Fiscal Years Ended or Ending June 30, 2012 Through 2016

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Year Ended or Ending June 30	Ad Valorem Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Special Act 198 (1)	Total Taxable Value (3)	Percent Change
2010	2011	2012	294,813,921	1,151,300	295,965,221	1.02%
2011	2012	2013	287,220,130	1,147,200	288,367,330	-2.57%
2012	2013	2014	293,861,406	215,250	294,076,656	1.98%
2013	2014	2015	281,158,245	624,550	281,782,795	-4.18%
2014	2015	2016	277,247,150	1,095,500	278,342,650	-1.22%

Per Capita Total Taxable Value for the Fiscal Year Ended June 30, 2016 (2).....$19,679.20

(1) Values are given at the full tax rate, and special Acts currently include 198 (IFT) and exclude 146 (OPRA).
(2) Based on the City's 2010 population of 14,144.
(3) Total taxable value and Ad Valorem taxable value includes 2 properties owned by the DNR in the amount of $13,435, for which taxable value was frozen at the 2004 tax rate.

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

City of Sault Ste. Marie
Total Taxable Value By Use and Class
Fiscal Years Ended or Ending June 30, 2012 Through 2016

	Fiscal Year Ending June 30				
Use	2012	2013	2014	2015	2016
Commercial (1)	$ 110,712,184	$ 105,106,885	$106,825,104	$ 96,685,996	$ 94,049,077
Industrial (1)	18,626,800	18,234,500	19,744,766	19,865,908	20,488,738
Residential/Ag.	159,521,637	157,980,545	160,141,186	157,302,791	157,242,635
Utility	7,104,600	7,045,400	7,365,600	7,928,100	6,562,200
Total	$ 295,965,221	$ 288,367,330	$ 294,076,656	$ 281,782,795	$ 278,342,650
Class	2012	2013	2014	2015	2016
Real Property	$ 271,401,221	$ 364,019,530	$269,979,706	$259,238,895	$ 258,122,750
Personal Property	24,564,000	24,347,800	24,096,950	22,543,900	20,219,900
Total	$ 295,965,221	$ 288,367,330	$ 294,076,656	$281,782,795	$ 278,342,650

(1) Taxable value by Use includes real and personal, personal property is in Commercial, Industrial and Utility. 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 Ended or Ending June 30, 2012 Through 2016

	Fiscal Year Ending June 30				
Use	2012	2013	2014	2015	2016
Commercial	37.41%	36.45%	36.33%	34.31%	33.79%
Industrial	6.29%	6.32%	6.71%	7.05%	7.36%
Residential/Ag.	53.9%	54.79%	54.46%	55.82%	56.49%
Utility	2.4%	2.44%	2.50%	2.81%	2.36%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Class	2012	2013	2014	2015	2016
Real Property	91.7%	91.56%	91.81%	92.00%	92.74%
Personal Property	8.3%	8.44%	8.19%	8.00%	7.26%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

City of Sault Ste. Marie
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2012 Through 2016

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Year Ended or Ending June 30	Ad Valorem SEV	SEV of Property Granted Tax Abatement Under Special Act 198 (1)	Total Value	Percent Change
2010	2011	2012	315,424,900	2,302,600	317,727,500	0.36%
2011	2012	2013	299,459,251	2,294,400	301,753,651	-5.03%
2012	2013	2014	306,736,600	215,250	306,951,850	1.72%
2013	2014	2015	312,850,600	624,550	313,475,150	2.13%
2014	2015	2016	314,931,000	1,202,800	316,133,800	0.85%

Per Capita Total SEV for the Fiscal Year Ending June 30, 2016 (2) $22,351.09

(1) Special Acts currently include 198 (IFT), and exclude 146 (OPRA). All abatements under Act 255 have expired.
(2) Based on the City's 2010 Census population of 14,144.
Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2012 Through 2016

	Fiscal Year Ending June 30				
Use	2012	2013	2014	2015	2016
Commercial	$ 116,134,100	$ 109,024,551	$ 110,704,700	$ 115,158,400	$ 112,205,600
Industrial	19,778,100	18,234,500	19,746,950	20,220,850	21,741,200
Residential/Ag.	174,710,700	167,449,200	169,134,600	170,167,800	175,624,800
Utility	7,104,600	7,045,400	7,365,600	7,928,100	6,562,200
Total	$ 317,727,500	$ 301,753,651	$ 306,951,850	$313,475,150	$316,133,800
Class	2012	2013	2014	2015	2016
Real Property	293,128,400	$ 277,405,851	$ 290,220,500	$290,931,750	$ 295,913,900
Personal Property	24,599,100	24,347,800	16,731,350	22,543,400	20,219,900
Total	$ 317,727,500	$ 301,753,651	$ 306,951,850	$313,475,150	$316,133,800

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

City of Sault Ste. Marie
Percent of Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2012 Through 2016

	Fiscal Year Ending June 30				
Use	2012	2013	2014	2015	2016
Commercial	36.55%	36.13%	36.07%	36.74%	35.49%
Industrial	6.22%	6.04%	6.43%	6.45%	6.88%
Residential/Ag.	54.99%	55.49%	55.10%	54.28%	55.55%
Utility	2.24%	2.34%	2.40%	2.53%	2.08%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Class	2012	2013	2014	2015	2016
Real Property	92.26%	91.93%	94.55%	92.81%	93.60%
Personal Property	7.74%	8.07%	5.45%	7.19%	6.40%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Maximum Tax Rates
Fiscal Year Ending June 30, 2015

Millage Classification	Millage Authorized	Millage Reduction Fraction (1)	Maximum Allowable Millage
Operating	20.0000	0.8407	16.8139
Refuse Collection and Disposal	3.0000	0.8407	2.5221
Library	0	0	0

(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 or Act 146 (the "Acts"). The Acts were designed to provide a stimulus in the form of significant tax incentives to industry and commercial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties").

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 all of the 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 $2,191,000 for the fiscal year ending June 30, 2016. The tax paid on these properties is equivalent to Ad Valorem Taxes paid on $1,095,500 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.

Act 146 is referred to as the Obsolete Property Rehabilitation District (the OPRA), and abatements under this Act reduce only the School Operating and State Education Tax millages, leaving City and County taxes unaffected. It is for this reason that Taxable and State Equalized Values for parcels abated under the OPRA are not combined with IFT parcels in the special acts values in preceding tables. There is currently one parcel abated under this act, with a taxable value of $80,500.

NOTE 2 - TABLES: (Continued)

City of Sault Ste. Marie
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2012 Through June 30, 2016

Levy July 1	Fiscal Year Ended or Ending June 30	Operating	Police and Fire Pension	Refuse Collection and Disposal	Library	Total
2011	2012	16.8139	3.7813	0.5632	0.8000	21.9584
2012	2013	16.8139	4.2167	0.5632	0.8000	22.3938
2013	2014	16.8139	4.7055	0.5632	0.8000	22.8826
2014	2015	16.8139	4.9152	0.5632	0.0000	22.2923
2015	2016	16.8139	5.2115	0.5632	0.0000	22.5886

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2012 Through June 30, 2016

	Fiscal Year Ending June 30				
Governmental Unit	2012	2013	2014	2015	2016
City of Sault Ste. Marie	21.9584	22.3938	22.8826	22.2923	22.5886
Chippewa County	9.1648	9.1648	9.2648	9.2648	9.2648
State Education Levy	6.0000	6.0000	6.0000	6.0000	6.0000
Sault Area Public Schools	1.8000	1.9000	1.8000	2.5000	2.5000
Intermediate School District	0.9727	0.9727	1.2000	1.2000	1.2000
Superior District Library	0.0000	0.0000	0.5000	0.5000	0.5000
Total	39.8959	40.4313	41.6474	41.7571	42.0534

City of Sault Ste. Marie
Non-Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2012 through June 30, 2016

	Fiscal Year Ending June 30				
Governmental Unit	2012	2013	2014	2015	2016
City of Sault Ste. Marie	21.9584	22.3938	22.8826	22.2923	22.5886
Chippewa County	9.1648	9.1648	9.2648	9.2648	9.2648
State Education Levy	6.0000	6.0000	6.0000	6.0000	6.0000
Sault Ste. Marie Public Schools	19.7388	19.9000	19.8000	20.5000	20.5000
Intermediate School District	0.9727	0.9727	1.2000	1.2000	1.2000
Superior District Library	0.0000	0.0000	0.5000	0.5000	0.5000
Total	57.8347	58.4313	59.6474	59.7571	60.0534

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

(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.

City of Sault Ste. Marie
Property Tax Collections
Fiscal Years Ended or Ending June 30, 2011 Through June 30, 2016

July 1 Levy	Fiscal Year Ended/ Ending June 30	Tax Levy (1)	Collections to March 1 Following Levy	Percent Collected
2010	2011	6,038,567	5,578,083	92.37%
2011	2012	6,048,139	5,527,851	91.40%
2012	2013	6,063,963	5,623,156	92.73%
2013	2014	6,291,646	5,841,126	92.84%
2014	2015	5,915,476	5,450,850	92.15%
2015	2016	6,007,011		

(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.

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

Profile of the Ten Largest Taxpayers

Reflected below are the City's ten largest property taxpayers, their principal product or service and respective Total Taxable Value.

City of Sault Ste. Marie
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2016

Taxpayer	Type of Business	2015 Taxable Value	Percent of Total (1)
Cloverland Electric Cooperative	utility - electric	$14,853,355	5.34%
DDR Michigan II LLC	retail – shopping mall	7,200,037	2.59%
Wal-Mart Real Estate Business	retail – department store	6,246,200	2.24%
Pointe West 1 LP	residential - apartments	3,550,301	1.28%
Hoover Precision Products LLC	manufacturing	3,354,400	1.21%
Sault Express Limited	motel	1,503,687	0.54%
McGahey Randall G & Judith C	construction/residential	1,515,337	0.54%
Central Savings Bank	bank	1,431,921	0.51%
DTE Gas Company	utility - gas	1,309,600	0.47%
Simon Benjamin W - Trust	retail – shopping mall	1,272,460	0.46%
		$ 42,237,298	15.17%

(1) Based on the City's Total Taxable Value of $278,342,650. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of September 30, 2015.

Debt Limit (1)		$31,613,380
Debt Outstanding	$ 47,974,686	
Less: Exempt Debt	27,738,614	20,236,072
Legal Debt Margin		$11,377,308

(1) 10% of $316,133,800, which is the City's Total State Equalized Valuation for the fiscal year ending June 30, 2016. 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 November 2, 2015. 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.

City Direct Debt	Gross	Self-Supporting	Net
Share of County Issued Bonds:			
Dated July 12, 2011 (4) (LT)	$ 2,830,000	$ 2,830,000	$ -
Dated December 23, 2013 (LT)	6,375,000	6,375,000	-
Subtotal	$ 9,205,000	$ 9,205,000	$ -
Building Authority Bonds:			
Dated March 1, 1994	$ 107,575	107,575	-
Subtotal	$ 107,575	$ 107,575	$ -
Michigan Transportation Fund Bonds:			
Dated September 1, 2008 (LT) (4)	$ 520,000	$ 520,000	$ -
Subtotal	$ 520,000	$ 520,000	$ -
Tax Increment Bonds:			
Dated April 17, 2012 (LT)	$ 840,000	$ 840,000	$ -
Dated April 29, 2015 (LT)	4,420,000	4,420,000	-
Subtotal	$ 5,260,000	$ 5,260,000	$ -
Capital Improvement Bonds:			
Dated April 25, 2012 (LT) (4)	$ 2,160,000	$ 2,160,000	$ -
Dated February 3, 2010 (LT)	3,685,000	-	3,685,000
Dated November 2, 2005 (LT)	475,000	475,000	-
Dated April 29, 2015 (LT)	2,285,000	2,285,000	-
Subtotal	$ 8,605,000	$ 4,920,000	$ 3,685,000

(Continued)

NOTE 2 - TABLES: (Continued)

Debt Statement: (Continued)

City Direct Debt	Gross	Self-Supporting	Net
Water and Sewer Bonds:			
Dated September 17, 2014 (4)	$ 7,325,000	$ 7,325,000	$ -
Dated September 17, 2014 (4)	5,120,000	5,120,000	-
Dated January 22, 2010 (LT) (4) (5)	4,302,707	4,302,707	-
Dated March 27, 2003 (4)	1,600,000	1,600,000	-
Dated September 26, 2002 (LT) (4)	1,730,000	1,730,000	-
Dated September 28, 2001 (4)	815,607	815,607	-
Dated September 29, 1998 (4)	1,125,000	1,125,000	-
Dated September 29, 1998 (4)	1,235,000	1,235,000	-
Dated September 30, 1997 (LT) (4)	105,000	105,000	-
Dated September 1, 1997 (LT) (4)	125,000	125,000	-
Dated September 28, 1995 (LT) (4)	460,000	460,000	-
Subtotal	$ 23,943,314	$ 23,943,314	$ -
Installment Purchase Obligations			
Dated August 3, 2006 (LT)	333,797	333,797	-
Subtotal	$ 333,797	$ 333,797	$ -
Total City Direct Debt	$ 47,974,686	$ 44,289,686	$ 3,685,000
Per Capita Net City Direct Debt (1)			$ 260.53
Percent of Net Direct Debt to Total SEV (2)			1.17%

Overlapping Debt (3)	Gross	City Share as Percent of Gross	Net
Sault Ste. Marie Public Schools	$ 12,380,000	52.87%	$ 6,545,306
Eastern Upper Peninsula I/S/D	151,584	11.96%	18,129
Chippewa County	2,185,000	24.93%	544,721
Totals	$ 14,716,584		$ 7,108,156
Per Capita Net Overlapping Debt (1)			$ 502.56
Percent of Net Overlapping Debt to Total SEV (2)			2.25%
Per Capita Net Direct and Overlapping Debt (1)			$ 763.09
Percentage of Net Direct and Overlapping Debt to Total SEV (2)			3.42%

NOTE 2 - TABLES: (Continued)
Debt Statement: (Continued)

(1) Based on the City's 2010 U.S. Census population of 14,144.
(2) Based on $316,133,800, which is the City's Total State Equalized Valuation for the fiscal year ending June 30, 2016, and includes the SEV of property granted tax abatement under Act 198 and 146.
(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.
(6) New debt, CSO C-3 Capital Improvement Bonds closed in April 2015.

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

City of Sault Ste. Marie
Revenues From the State of Michigan
Fiscal Years Ended or Ending June 30, 2010 Through 2015

	Fiscal Year Ending June 30					
	2010	2011	2012	2013	2014	2015
Constitutional Revenue Sharing	$ 907,772	$ 950,582	$ 1,011,795	$ 1,032,741	$ 1,056,960	$ 1,087,110
Statutory Revenue Sharing	534,887	492,077	362,853	388,770	407,499	419,942
Income Tax	-	-	-	-	-	-
Liquor Licenses	18,886	20,385	20,175	19,516	20,250	20,422
Total Revenues	$ 1,461,545	$ 1,463,044	$ 1,394,823	$ 1,441,027	$ 1,484,709	$ 1,527,474

Source:City of Sault Ste. Marie

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

Valuation Date December 31	Actuarial Accrued Liability	Actuarial Value of Assets	Funded Ratio
2010	24,418,081	21,087,835	86.36%
2011	25,275,087	21,197,581	83.87%
2012	26,232,206	21,220,154	80.89%
2013	27,101,844	21,365,130	78.83%
2014	27,825,812	21,474,510	77.17%

Source: City of Sault Ste. Marie

NOTE 2 - TABLES: (Continued)

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

Valuation Date June 30	Actuarial Accrued Liability	Actuarial Value of Assets	Funded Ratio
2010	23,370,978	11,868,871	50.78%
2011	24,176,440	12,542,774	51.88%
2012	26,276,879	12,723,814	48.42%
2013	26,730,112	13,263,763	49.62%
2014	27,066,293	14,542,674	53.73%

Source: City of Sault Ste. Marie

Labor Contracts

Approximately 79.31% 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.

	Membership	Current Expiration Date
United Steelworkers of America - Public Works	43	June 30, 2017
United Steelworkers of America - Clerical	7	June 30, 2017
United Steelworkers of America - Firefighters	15	June 30, 2017
United Steelworkers of America - Fire Captains	3	June 30, 2018 (a)
Michigan Fraternal Order of Police Labor Commission -Patrol Unit	16	June 30, 2017
Michigan Fraternal Order of Police Labor Commission -Police Records	4	June 30, 2017
Michigan Fraternal Order of Police Labor Commission -Police Command	5	June 30, 2015 (a)
Non-Union Employees	24	N/A
Total Permanent City Employees	117	

(a) In process of negotiation as of October 8, 2015.

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	Approx. Employee Count
Sault Tribe of Chippewa Indians	Casino, Hotel & Convention Center, Tribal Administration	1,627
Lake Superior State Univ.	Higher Education	1,012
War Memorial Hospital	Healthcare	925
U.S. Coast Guard	Military	391
Wal-Mart	Retail	380
Sault Area Public Schools	Primary/Secondary Education	279
CLM Community Action Agency	Human Services	208
City of Sault Ste Marie	Governmental Service	149
Precision Edge	Surgical Instruments	180
Hiawatha Behavioral Health	Mental Health	107

Source: City of Sault Ste. Marie, October 2015

Employment

Reflected below are the unemployment statistics for the Sault Ste. Marie Micropolitan Statistical Area and the State of Michigan for the calendar years 2010 through August of 2015.

Sault Ste. Marie Micropolitan Area:

	2010	2011	2012	2013	2014	2015(1)
Employed	15,922	15,542	15,385	15,343	15,300	15,423
Unemployed	1,900	1,762	1,610	1,660	1,389	1,031
Labor Force	17,822	17,304	16,995	17,003	16,689	16,454
Unemployed as Percent Of the Labor Force (1)	10.7%	10.2%	9.5%	9.8%	8.3%	6.3%

(1) As of August 2015.
(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:

	2010	2011	2012	2013	2014	2015(2)
Employed	4,230,406	4,222,730	4,254,246	4,339,895	4,427,166	4,524,522
Unemployed	591,624	504,371	441,606	427,931	350,477	246,425
Labor Force	4,822,030	4,727,101	4,695,852	4,767,826	4,777,643	4,770,947
Unemployed as Percent Of the Labor Force (1)	12.0%	10.3%	9.0%	8.5%	6.8%	5.1%

(1) As of September 2015.
(2) Totals and percentages may differ due to rounding by the US Bureau of Labor Standards.

Source: US Bureau of Labor Standards